FirstCity
1978 Annual Report

Our New Name: Identity and Aspiration

In 1978 City Savings & Trust changed its name to First City Trust. Nothing else changed. We have the same Canadian management, the same decisive policies, the same positive energy. The name change isn't our only achievement over the past year. We're considerably larger now. But more about that in the other sections of this report. What we want to share with you here is some of the thinking behind the name change. In the beginning, of course, we pondered the timeless question: What's in a name?

There was a time when nothing on earth had a name. Rivers flowed, jungles teemed, hurricanes came and went. But a world unnamed is a world untamed. To wander through a land of mountains that merely stand, of rivers that simply rush with no imputations of personality, exposes one a bit too directly to the independence of nature. Enter human language.

So now it is Mont Blanc and the Amazon, the Black Forest and the Red Sea, Pike's Peak, Harper's Ferry, The Van Allen Belt, Medicine Hat, the Milky Way. The universe has been captured and catalogued in twelve volumes sold door to door. Let your fingers do the educating.

Names always start out to do something: express a hope for a child's future, commemorate a likeness or hometown, impart strength of virtue.

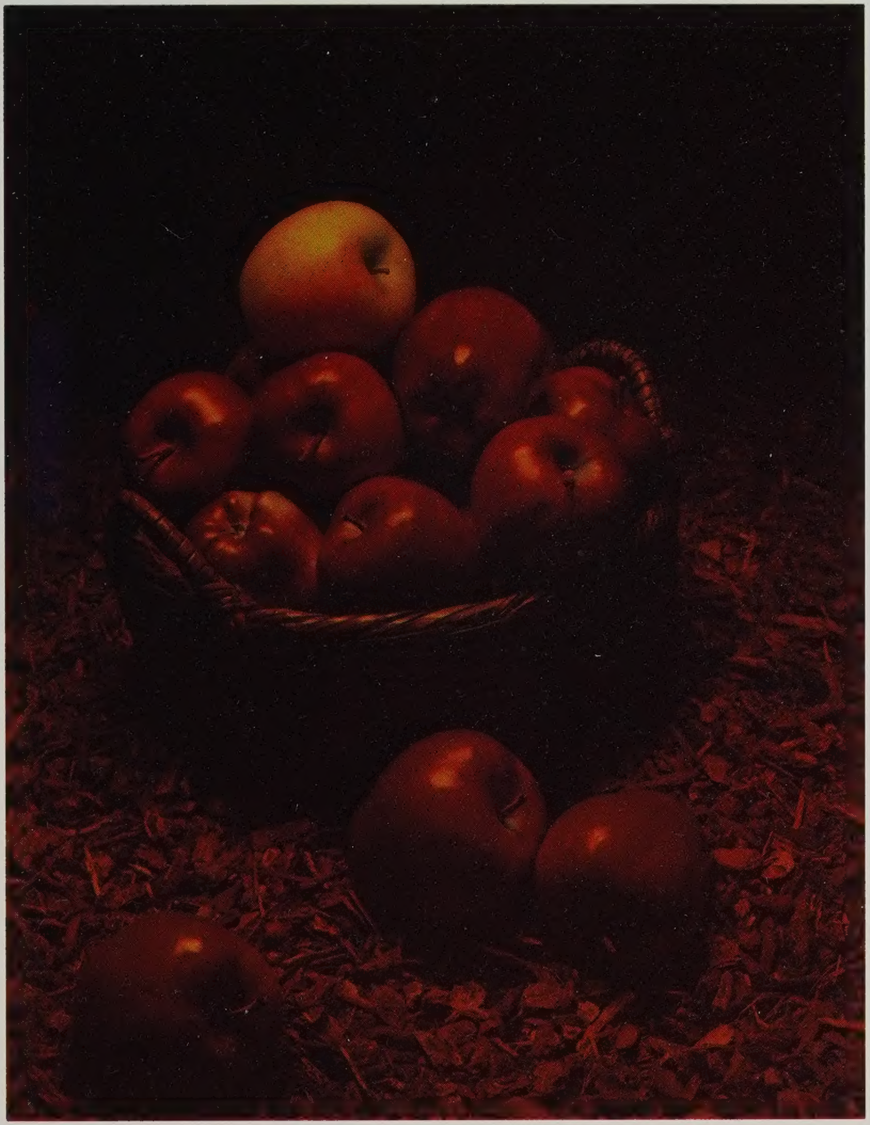
The power of names is indisputable. One falls in love with a girl named Lynn, and forever after the name Lynn, heard or seen, produces a millisecond of private emotion. Parents spend hours deciding on names for babies—believing perhaps correctly that to name something is to shape its destiny. Corporations sue each other to safeguard a name, or spend millions of dollars test-marketing new ones. Nations argue over the correct name of a territory or treaty.

One's name is the most crucial symbol of identity. So it is with a corporate name. We did not approach the changing of our name lightly; the old one had served us well. It had meaning for many. But after 16 years our goals were now on a national and international, not regional or local plane. We were engaged in a competitive enterprise whose first identity goals were to be seen and remembered. We were maturing as a full service financial entity made up of divisions and subsidiaries whose varied names made it difficult to present ourselves as an integrated, synergistic family. In today's fast-paced, crowded marketplace, to occupy some part of the public's mind is half the business battle. It is the faceless nature of many corporations that confuses and irritates potential customers and even their own employees. Today the various publics want to know as much about you as you want to know about them. They want to know what distinguishes your company from others. And we might add that names, old or new, transcend cosmetics: in the long run a name is only as good as the "name" you get by your action or inaction.

Here, above all, is our reason for the name change, at once our recognition and resolve: you don't get to the top by being like everybody else. This is the theme of our annual report. On the pages that follow we will combine word and photograph to express our corporate goal now and in the years ahead: to get to the top by being distinctively different.

The First City people who appear in this annual report have been photographed against a field of Canadian place names representing, in many cases, the cities and towns where we have customers.

Since our name change is a first step in our goal of reaching the top by being different, we thought it would be appropriate to present the rich tapestry of Canadian place names on these pages to convey their infinite variety and colour in sight, in sound and in the corners of our minds.



In deliberate counterpoint to our corporate tempo, the mellow serenity of still life photography has been used to present our corporate goal: to get to the top by being distinctively different.

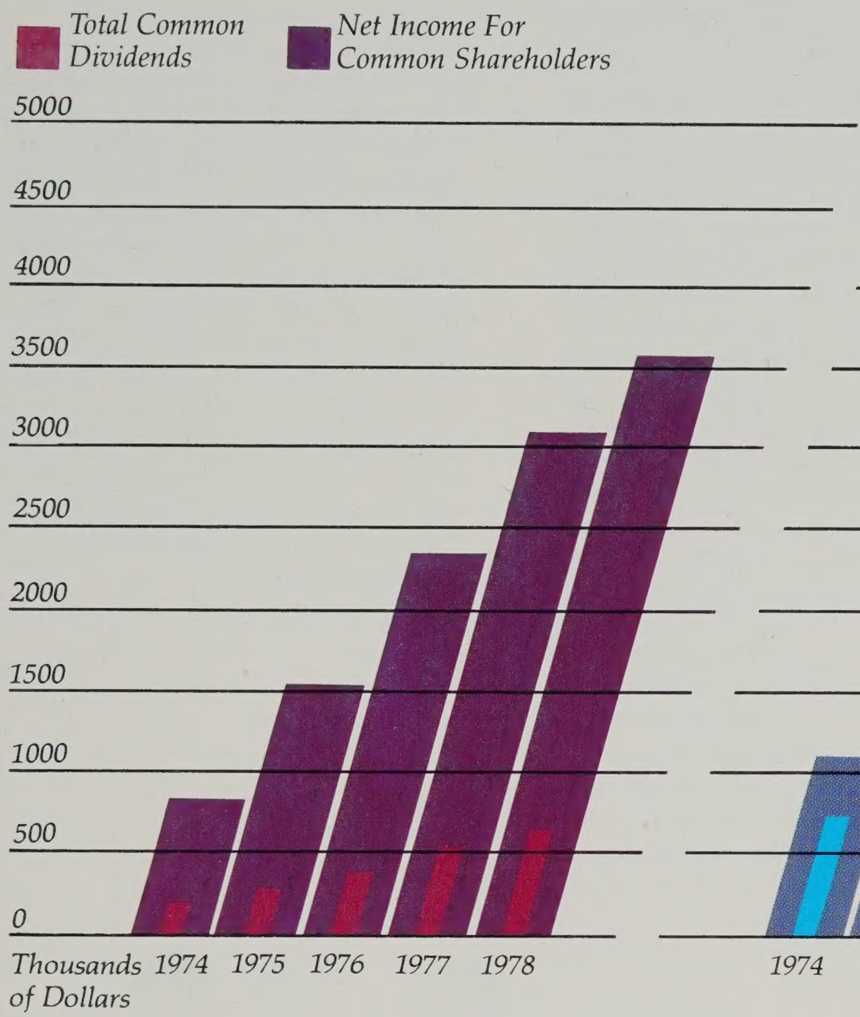
Financial Highlights

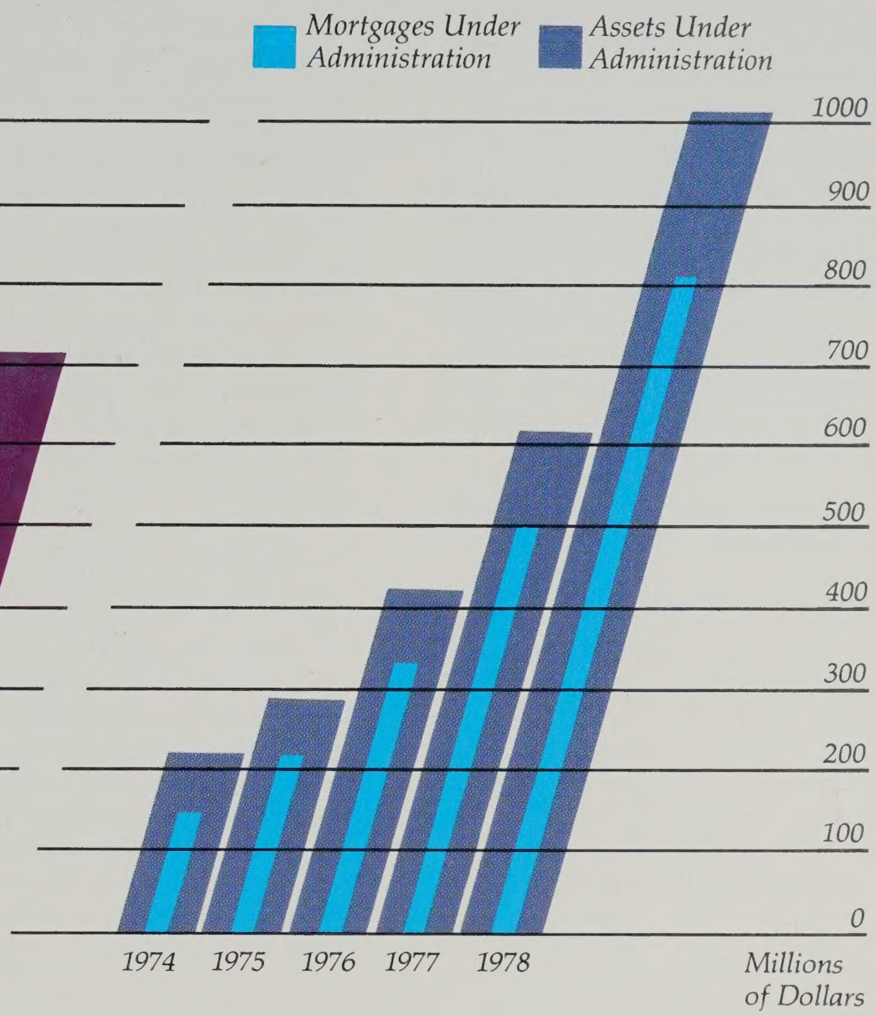
First City Financial Corporation Ltd. and Subsidiaries

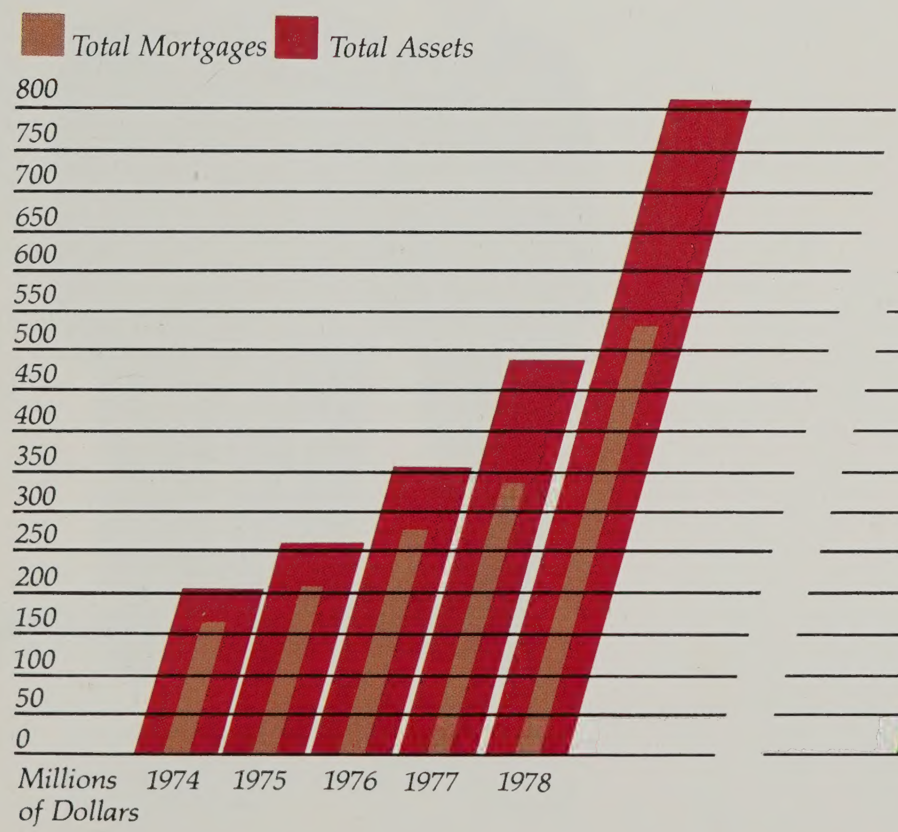
	1978	1977	Percentage Increase
Gross Revenue	**$ 87.2 million**	$ 52.2 million	67%
Net Income	**$ 5.0 million**	$ 4.1 million	22%
Per Common Share			
Earnings	**$ 1.80**	$ 1.76	2%
Dividends	**$ .24**	$ .20	20%
Book Value	**$ 11.26**	$ 9.72	16%
Total Assets	**$825.0 million**	$505.7 million	63%
Shareholders' Equity	**$ 31.5 million**	$ 27.1 million	16%

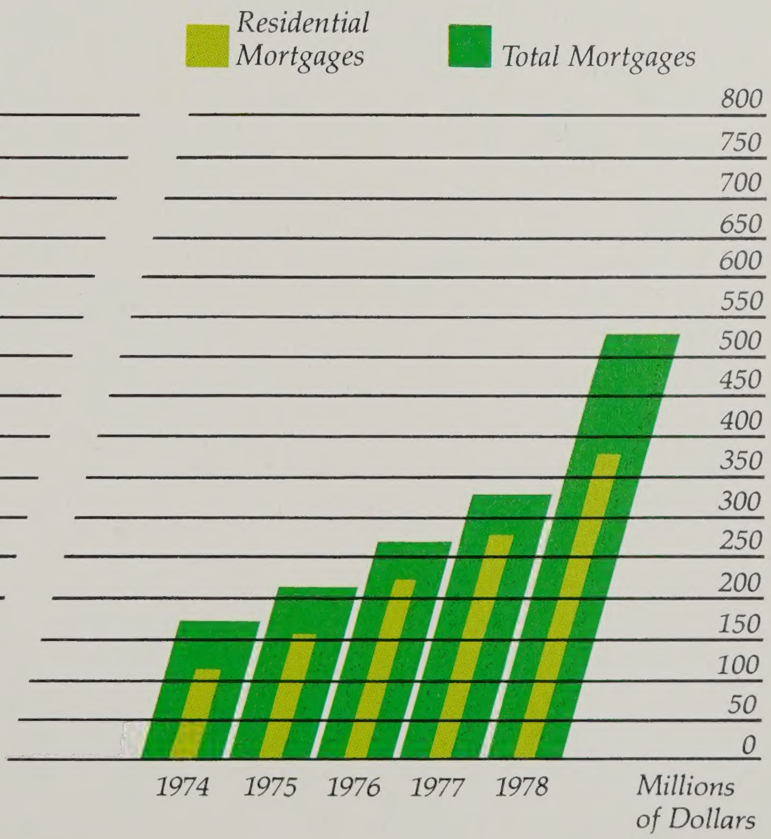
First City Trust Company and Subsidiaries

	1978	1977	Percentage Increase
Revenue	**$ 79.9 million**	$ 45.4 million	76%
Net Income	**$ 5.3 million**	$ 3.6 million	48%
Earnings Per Share	**$ 3.15**	$ 2.74	15%
Dividends Per Share			
Common	**$ .50**	$ .46	9%
Investment Assets			
Securities	**$ 98.4 million**	$ 52.7 million	86%
Mortgages	**$508.3 million**	$349.6 million	45%
Secured Personal Loans	**$ 8.3 million**	$ 6.5 million	28%
Commercial Loans & Leases	**$ 35.2 million**	$ 18.4 million	91%
Real Estate	**$124.8 million**	$ 12.8 million	875%
Customer Deposits	**$612.0 million**	$425.3 million	44%
Shareholders' Equity	**$ 42.2 million**	$ 24.8 million	71%


Total Common Dividends
Net Income For Common Shareholders
5000
4500
4000
3500
3000
2500
2000
1500
1000
500
0
Thousands of Dollars
1974
1975
1976
1977
1978


Mortgages Under Administration
Assets Under Administration
1000
900
800
700
600
500
400
300
200
100
0
1974
1975
1976
1977
1978
Millions of Dollars


Total Mortgages
Total Assets
800
750
700
650
600
550
500
450
400
350
300
250
200
150
100
50
0
Millions of Dollars
1974
1975
1976
1977
1978


Residential Mortgages
Total Mortgages
800
750
700
650
600
550
500
450
400
350
300
250
200
150
100
50
0
1974
1975
1976
1977
1978
Millions of Dollars

To Our Shareholders Clients and Employees:

First City Financial Corporation Ltd.

The company achieved another record level of earnings with net income exceeding the $5 million mark up 22% over the previous year. Total assets at year end amounted to $825 million, an increase of $320 million in the year. First City Financial Corporation Ltd. is a holding company. Substantially all the growth in earnings and assets emanates from the operating subsidiaries discussed below.

First City Trust Company and Subsidiaries

Operations Review

First City Trust in 1978 had another successive year of record achievements. Total assets under administration surpassed the billion dollar mark, registering a growth in the year of $320 million or 47%. The substantial growth in the asset base accounted in large part for the record net income of $5.3 million, a 48% increase over 1977. The net income after preferred dividends represented a 21% return on average common equity. Earnings per common share amounted to $3.15, a 15% increase over the previous year.

We are particularly pleased with these results because 1978 was a difficult period for mortgage lending institutions in Canada. The interest rate structure rose rapidly during the year in both the long and short end of the markets, reacting to the erosion of the Canadian dollar and higher inflation rates.

At the end of the year chartered bank prime lending rates exceeded conventional residential lending rates and short term commercial paper rates exceeded long term Canada Bonds. Many institutions suffered severe deterioration in the interest spread not only in their new mortgage business but in financing their old. Your company's philosophy of closely matching assets and liabilities as to rate and term minimized the impact of the sharp incline in interest rates.

Mortgages

The company's mortgage portfolio increased by $159 million to just over the half billion mark. New business committed during the period for retention in the company portfolio and for resale to institutional investors amounted to $236 million which was achieved in a very competitive mortgage lending environment. Income from mortgages increased during the year by 28%. Mortgages sold to institutional and individual investors amounted to $53 million. By the year end the portfolio administered for third party investors amounted to $192 million.

Samuel Belzberg
Chairman of the Board
First City Trust Company
Vancouver

Arnold H. Jeffrey
President
First City Trust Company
Vancouver

High unemployment in Canada, continuing inflation and high interest rates have resulted in marked increases in mortgage arrears and property foreclosures over the past several years. At year end our foreclosed property account amounted to $4,359,411, of which $3,851,411 is insured. The level of arrears has remained stable for some time now and indications appear to be for an improving trend in the period ahead.

The newest lending division formed, FIRST CITY REALFUNDS, is concentrating in the area of second mortgage lending on residential real estate. Although it has only experienced a short period of operations to date, it is surpassing original budget expectations.

Investments

During the year, the company significantly increased its investment activities in the various securities portfolios. Investments in preferred and common stocks increased by approximately $43 million. Over half of this increase relates to investments in preferred shares.

In the past couple of years, the preferred share market has been a favoured vehicle for corporate financing, and the yield after considering the tax-free status of the dividend makes it attractive to the corporate investor. This flow of tax-free dividend income results in a lower effective tax rate as reflected in the Profit and Loss Statement.

In respect of common share investments, the company has followed a program of investing in major public utilities and other large Canadian corporations where the common dividend approximates that obtainable on preferred shares and increases are anticipated in the future. The company is also seeking out other meaningful common equity positions in corporations where there is the probability of long term gains and a reasonable dividend yield.

Customer Deposits

The significant growth of assets was balanced off with a record growth of $186 million in customer deposits, a 116% increase over the previous year's growth. The Savings Division relocated an existing branch in Victoria during the 1978 year and early in 1979 opened a new branch in Windsor, Ontario. Later in 1979 another new branch will be opened in London, Ontario.

Senator David A. Croll, Q.C.
Chairman of the Board
First City Financial Corporation Ltd.
Toronto

First City Capital Ltd.

In the area of corporate term lending and equipment leasing the trust company and its subsidiary, First City Capital Ltd., issued nearly $30 million of new commitments and the funded portfolio increased during the year by 91% amounting to $35 million by year end. Although it is still a relatively new division of the company, First City Capital is already established as a sound profit centre and its activities are continuing to expand on a national scale.

First City Developments Ltd.

First City has been active for several years in real estate development. In April, 1978, the company acquired Consolidated Building Corporation Ltd. for approximately $16.6 million, involving a cash purchase of shares and acquisition costs of $1.9 million and the issuance of $14.7 million of First City Trust, 8¾% preferred shares in exchange for common shares of Consolidated.

On December 1, 1978 the company's other real estate activities were brought together with Consolidated in a new amalgamated company known as First City Developments Ltd. The new company's total investment in real estate amounted to $116 million at year end. First City Developments Ltd. is actively involved in real estate development in British Columbia, Alberta, Ontario, Nova Scotia, the states of Washington, Illinois, California and Oregon.

First City Investments

First City Investments, a separate operating division of the newly formed First City Developments Ltd., has been actively involved for a number of years in interim construction lending, real estate joint ventures in both the commercial and residential fields and related forms of merchant banking-type transactions. This division's activities during the year continued to expand aggressively both geographically and in the scope of its activities. It is continuing to grow in importance as a major profit contributor.

As the amalgamating companies were only wholly owned for part of the year, their contribution to the trust company's earnings was not significant in 1978.

Metropolitan Development Corporation

Subsequent to the year end, First City Developments, through a U.S. subsidiary, acquired for $26 million U.S., all the common shares of Metropolitan Development Corporation of California. Metropolitan is involved in residential real estate development in the states of Arizona, Nevada and California.

Corporate Name Change

In September, 1978, the trust company officially changed its name to First City Trust in order to create a better public awareness of our size, diversity and national scope. The success of such a move is measured in the public response, and we are pleased with the positive reaction to the new name.

Outlook

1979 appears to be another year of economic uncertainty in Canada. The negative forces that resulted in a sluggish 1978 economy are still with us: pressure on the Canadian dollar, high inflation and unemployment, not to mention the federal election. Early indications are for a continuing high interest rate structure and an extremely competitive lending environment due to decreased real estate development activity.

In spite of these adverse conditions, we are confident that our corporate objectives will be achieved in 1979. With respect for the hazards of dealing with the ever-changing economic environment, our management team looks forward to a challenging and stimulating task. As we enter the last year of the 70's, we will rely on financial resources, focused commitment, agility and one other asset not listed on the financial statements: human resources, our people—management and staff.

We know that success is not achieved spontaneously. Growth does not just happen. It's brought about by the concerted energies of people for whom just wanting to win isn't enough. You must know how to win. And our people do. The answer is the same as always. It lies in the old fashioned values of pride, integrity and teamwork. They still work. We're proud of our people and their performance. To them we extend deep appreciation for their individual contributions during the past year. Together, we share the anticipatory excitement of putting together that same combination of drive, vision and just plain hard work that will spell continued rapid progress towards a first in name and fact.

On behalf of the Directors,
respectfully submitted.

David A. Croll, Q.C.
Chairman of the Board
First City Financial Corporation Ltd.

Samuel Belzberg
President
First City Financial Corporation Ltd.
Chairman of the Board
First City Trust Company

Arnold H. Jeffrey
President
First City Trust Company

Summary of Operations
Mortgage Acquisition

The purpose of life is not to be happy. The purpose of life is to matter, to be productive, to have it make some difference that you lived at all.
—Leo Rosten

First City Trust has been encouraged by the way the Mortgage Acquisition Division responded to the challenges of the past year's uncertain real estate market. Their performance ran counter to the trend in the industry, reflecting a balance of opportunities and risks. The goal was to achieve healthy growth while strictly adhering to the requirement for sensible yields on each transaction.

In 1978 residential mortgage approvals set company records in both number and value. At year end, the percentage of total assets comprised of mortgages was 62%. In spite of the discouraging mortgage business climate in 1978, the division was successful in increasing the dollar value of mortgages in force to \$508,332,000 compared to \$349,667,000 in 1977—a 45% increase. The number of mortgages on our books at the end of 1978 was 8,460 contrasted with 6,851 in the previous year. In all, a satisfying achievement in the context of a less than buoyant environment. How were these numbers achieved when availability of business was limited, mortgage funds in abundant supply and rates predicated not on a free market but on political/economic factors within and without Canada's borders?

Administrative flexibility, strong support to the field force, speed of decision and sheer know-how, of course, continue to be key elements in making our group distinctly different. But what else explains our ability to stand apart from the crowd?

The answer, we believe, is in the intrinsic sales skills of our mortgage managers. Here is a close-up look at their professional attitudes:

- ☐ it's what you learn after you know it all that counts
- ☐ don't work for an organization which has too many layers of management who can't say yes but can say no
- ☐ business does not live on price alone
- ☐ the day just isn't long enough
- ☐ don't wait for better times; make them
- ☐ fall down nine times—get up ten.

These winning attitudes represent a working credo for the Mortgage Acquisition Division that we believe gives us that point of difference that makes all the difference.

In 1978 we began a modest program of expansion and strengthening of our field sales force. Our plan for 1979 is to step up the momentum. We'll be opening two more branches, one each in Windsor and London, in keeping with our commitment to provide nationwide service. Priorities this year: the development and cementing of relationships with builders, developers and mortgage brokers across the country. It's another extension of our whole approach to the marketplace: the mortgage business is not about money, it's about people.

Ron Pillott
Vice President
Mortgage Acquisition
Edmonton

Wayne L. Proctor
Branch Manager
Mortgage Acquisition
Vancouver

Robert J. Graham
Executive Vice President
Mortgage Acquisition
Vancouver

Winton J. Davies
Branch Manager
Mortgage Acquisition
Toronto

Jeff Weller
Residential Manager
Mortgage Acquisition
Toronto

Phil Young
Branch Manager
Mortgage Acquisition
London

Mortgage Underwriting

We're the same. But different.
—Pierre Berton

The Underwriting Division's charter is to structure real estate loans and provide necessary approvals as quickly as possible while maintaining prudent regard for the security of shareholders' and depositors' invested funds. For many corporations involved in lending, the underwriting function too often gains a reputation for being the land of the definite maybe. It was mainly to safeguard against this creeping into our mortgage operation that the Mortgage Underwriting Division was established a little over a year ago as a separate and independent division. It's often been said that *"it works better if you read the instructions."* That's what the division has focused on since its inception: expanding and implementing underwriting standards and practices, and working with the mortgage field sales force to apply them while taking into account market conditions and available business.

During the year, several additions were made to the staff to handle the underwriting and funding functions, as well as the administration of construction and other interim loans. While we continue to try to push more than sixty minutes into each hour, considerable progress has been made in establishing and refining our practices and procedures.

One of the activities of major impact in the past year was the computerization of large commercial loans, interim and staged draw construction loans. This includes the commitment system for recording all new loans as they are committed and approved by the Lending Committee.

For 1979 we plan on implementing a new word processing system. Our objective is to have a two-way computerized communication system between Head Office and our major branches in order to further speed up the approval process and to facilitate handling complicated loan applications at Head Office without causing delays to the branches. Benefits in time-savings, elimination of repetitious work and improved quality control will be substantial.

Perhaps few other areas have more impact than Underwriting on the ability of the company to project a measurable difference in so far as competition is concerned. Response or turnaround time, customer service, call it what you will, the performance of our Mortgage Underwriting Division sets it apart in the industry as first rate in flexibility and speed of decision.

David A. Alderdice
Divisional Vice President
Mortgage Underwriting
Vancouver

Sydney C. Terry
Manager
Mortgage Underwriting
Vancouver

Jules P. Joanis
Assistant Vice President
Mortgage Underwriting
Vancouver

Ronald A. Bennett
Supervisor
Mortgage Underwriting
Vancouver

Ted W. Nolt
Supervisor
Residential Mortgage Funding
Vancouver

Fergus J. Kilmartin
Administrator
Mortgage Underwriting
Vancouver

Drew Ripley
Assistant Vice President
Residential Mortgage Underwriting
Vancouver

There is an old axiom that an ounce of creativity in the product is worth a pound of creativity in the advertising. That has proven itself in First City's Mortgage Banking service to domestic and non-resident institutional and individual investors. Our computerized mortgage portfolios administered on behalf of Canadian, American and European investors now approximate $200 million. Administered portfolios of NHA mortgages average approximately $1 million per mortgage fund.

During the past year we successfully introduced the certified payment plan which applies to NHA mortgage packages from $40,000 to $200,000. This provides the smaller investor the certainty of a regular monthly remittance and statement of account.

We provided financing for Canada's first CMHC Graduated Payment Mortgage (GPM) on a rental apartment. This GPM loan was syndicated by us to a major Canadian pension fund—another first. Syndicated rental and longer term loans administered on behalf of institutional investors constitute a dynamic market and one in which we excel with our in-house computer administration.

Portfolio liquidity is an important consideration for our institutional investor clients, and for that reason we maintain a current and active market in all our mortgage portfolios.

In addition to our regular five-year term mortgage portfolios, we maintain an inventory of NHA residential mortgages with remaining terms of one to four years, for investors who want a shorter term investment.

The demand for prompt, efficient administration combined with innovative approaches in mortgage financing and investor syndication will continue to grow in 1979. We're ready to increase our penetration of the market. Our point of difference in Mortgage Banking? We believe that nothing astonishes people so much as common sense and plain dealing. We conduct ourselves accordingly.

Robert W. McIntyre
Divisional Vice President
Mortgage Banking
Toronto

David N. Moses
Supervisor, Mortgage Banking
Vancouver

Plain vanilla we are not. First City has been a multi-faceted financial services company for a long time—17 years. So it was hardly surprising when the Realfunds Division was established in October, 1978. The newest member of the corporate family was put together to service the second mortgage demand in the residential mortgage market.

While loans on commercial properties are not excluded, the majority of our business is in owner-occupied, single family dwellings. It is in this area that we will be concentrating our marketing efforts. Acceptance from the community of mortgage brokers and realtors has been excellent. Close

Carl L. Lavoie
Manager
First City Realfunds
Vancouver

Ralph F. Ingram
Divisional Vice President
First City Realfunds
Vancouver

personal relationships, good salesmanship and prompt service are key factors in the division's early success. Over 300 applications with more than $3 million in commitments from a standing start in little more than a quarter is an encouraging portent of long-term growth.

It doesn't take long for people to find out that you're doing business with a difference. That difference in the case of First City Realfunds is impatience—impatience to get the job done for the customer. Turning on a dime can turn into seven and eight figure volume as time goes on.

On December 1, 1978, First City Developments Ltd. was created by the amalgamation of the various First City real estate companies. The purpose was to bring together all the major real estate activities into one corporate entity which would result in increased efficiencies of operation and a larger capitalization base to support future growth.

With the acquisition of Consolidated Building Corporation in April, 1978, the company gained control of some 2,980 acres of prime real estate in Metropolitan Toronto and the benefit of that company's long established reputation as a high-quality developer and builder in the Ontario marketplace.

The fusion of this operation with the company's existing real estate development activities in the newly-formed First City Developments Ltd. has resulted in the creation of a major North American real estate organization involved in all facets of real estate development diversified both geographically and in scope of activity. The company's operations range from residential land sub-divisions in Toronto to similar projects in Alberta, British Columbia and Washington State; from a home site sub-division in Oregon to a large shopping center in Halifax, Nova Scotia.

As of November 30, 1978, total assets amounted to $160 million with capitalization at $16 million, not to mention parent companies' advances of nearly $12.5 million. The net combined income of the companies for the period ended November 30, 1978 was $1,052,000. These results represent in each case less than a full year's operations for the amalgamating entities.

Victor G.S. Durman
Vice President
First City Developments Ltd.
Vancouver

Donald G. McMillan
Vice President
First City Developments Ltd.
Vancouver

Jim Griffiths
Vice President, Finance
First City Developments Ltd.
Vancouver

Somer Rumm
Senior Vice President
First City Developments Ltd.
Toronto

Bob Friedman
Vice President
First City Developments Ltd.
Chicago

Lawrence Shankman
President
First City Developments Ltd.
Toronto

Chances are that if you dropped into First City's Vancouver executive offices on a Sunday afternoon, you'd run into someone from First City Investments. It's the nature of the business. Multi-million dollar deals don't wait for the clock. If you want the business, you put in the time. And it pays. First City Investments is a major profit contributor.

First City Investments is in the real estate business. A division of the newly amalgamated real estate subsidiary First City Developments Ltd., "FCI" is active in three main areas: conventional interim real estate financing, joint ventures or equity financing, and direct real estate development.

When a developer needs money to purchase, service, subdivide or build upon a piece of land, FCI will lend him money on a short-term basis until the land is either developed and sold, or reaches an income producing state where the developer can obtain long-term financing. That's interim financing. The money involved is often advanced by First City Trust with FCI arranging the transaction.

When receiving interim financing the developer must put up some of his own money toward the project. This is called his "equity." However, FCI will often arrange to contribute some or all of the equity required in return for a share in the profits of the finished project. That's joint venture financing.

Each potential project requires a phenomenal investment of time and knowledge to eliminate risk. With this size of transaction, one can't afford to make mistakes. The only answer is to take the time to be thorough and careful. Evidently, First City Investments has mastered the discipline. The division's volume in 1978 was in excess of $60 million in new loan commitments, including joint venture loans.

Operational or administrative high points in 1978 included:

FCI's entry into direct real estate development in the U.S. market, specifically in the Seattle area. An office was opened in Bellevue, Washington.

Several large joint venture loans made in the Western United States.

Increased business with prime borrowers.

Increases not only in joint venture loan volume, but in the actual number of such loans entered into. Much of this increased business came from existing customers.

Additions to the marketing group in British Columbia, Alberta, and Toronto; expansion of the administrative staff.

1979 objectives include heavy concentration on increased market penetration in Alberta and stepped up involvement in direct development, primarily in the U.S. market.

The core of First City Investments' success and the reason for its proven track record is its dedication to the business axiom that long term growth comes only from long term relationships. In an impersonal and pragmatic world, that is quite a point of difference to offer.

David A. Alderdice
Vice President
First City Investments
Vancouver

Bruce W. Ford
Mortgage Administrator
First City Investments
Vancouver

Thomas M. Cully
Mortgage Administrator
First City Investments
Vancouver

George B. Schaefer
Assistant Vice President
First City Investments
Vancouver

Michael Cytrynbaum
President
First City Investments
Vancouver

A Merchant Banking Solution

There are three kinds of companies in the business world:

The ones who make things happen

The ones who watch things happen

And the ones who don't know what's happening.

Here's a story that places First City Investments squarely in the first category.

Early in 1978, Narod Development Ltd.'s President, Dave Mooney, began discussions with Michael Cytrynbaum, President of First City Investments, on a proposed joint venture project. In the middle of negotiations, and quite apart from the project itself, Mooney was suddenly presented with an opportunity to buy out Narod's principal shareholder.

After considering various alternatives for the necessary funds, Mooney chose to approach First City Investments. The reasons:

1. *FCI had the dollar resources for Mooney's buy-out and any future financing requirements to help Narod's long term growth.*
2. *FCI understood the development business and could be relied upon not only for real estate financing but expertise on specific projects as they arose.*

With these points in mind, First City Investments took an innovative merchant banking approach: First City Investments would provide Dave Mooney with 100 per cent of the funds needed for the purchase of the company and go into partnership with Mooney, FCI to have part ownership of Narod Development.

This is a case where everyone won.

Dave Mooney was able to take advantage of an opportunity to own the company;

Narod is more successful today than ever and has the partner it wants to supply funds and expertise;

First City Investments has created an excellent vehicle for the generation of additional business, which is occurring.

The moral of the story? More than one:

There are times when the only way to attack a problem is to forget the conventional solution and approach it from a different angle.

Columbus was not the only one who found what he wasn't looking for.

Long term relationships lead to long term growth for both.

Maybe First City Investments ought to be called First City Merchant Banking.

Michael R. Guillemette
Vice President
First City Investments
Vancouver

Herman P. Kroeker
Vice President
First City Investments
Calgary

Peter F. McPherson
Vice President
First City Investments
Vancouver

Savings

Achieving security these days is like trying to catch a butterfly with a three inch net. Yet, no matter how many alternatives and variations spring up in the market place, simple savings continues to be the overwhelmingly dominant instrument for personal security, relied upon by the great majority of Canadian people.

Saving money is a specialty of Canadians. Is it the recent memory of the raw frontier? Is it the cold climate? Or just a larger measure of prudence? No one knows for sure. What we can report is another very successful record year in savings deposit acquisition. This, in a year watched with some trepidation by the Savings Division, since our name changed from City Savings and Trust to First City Trust.

The results were more than reassuring. Total deposits at the end of 1978 rose to a record of $612,045,000 from the 1977 year end level of $425,307,000. Long term GIC's totalled $374,802,000 as of 1978 compared to $258,934,000. Short term GIC's climbed to $78,639,000 in 1978 from $39,438,000 in 1977. The RRSP figure for 1978 was a record $66,517,000 from the $47,096,000 totalled in the previous year.

First City Trust offers a broad range of savings and tax deferral plans which include:

Guaranteed Investment Certificates

Savings and Chequing Accounts

Registered Retirement Savings Plans

Registered Home Ownership Savings Plans

Deferred Profit Sharing Plans

Income Averaging Certificates

Toward the end of 1979 we plan to have established a second deposit vehicle, covered by the Canada Deposit Insurance Corporation, which will allow individuals to deposit up to $40,000 with First City Trust.

Our company's approach to the acquisition of savings has always stressed the building of a stable deposit base. Rate-sensitive volatile money has been discouraged in order to avoid the many dislocations resulting from withdrawals of these deposits. In keeping with these objectives, we are progressing toward the expansion of types of RRSP's to include other savings instruments such as a mortgage fund or equity fund and perhaps a bond fund to be offered through our branch offices.

Ken Hocken
Manager
Savings Branch
Winnipeg

Richard J. McLeod
Divisional Vice President
Savings Division
Vancouver

Sooner or later in any human endeavour, you've got to make human contact. For growth in the savings area, the sooner and oftener the better. Planned branch development is essential. Our continuing strategy is one of controlled expansion. We aggressively seek quality locations, not a branch on every corner with millions of dollars invested in marble and stone, but rather a well-located convenient central location with the emphasis on quality of service and other aspects both tangible and intangible more closely related to the customer's benefit.

First City Trust has an excellent working relationship with a significant number of agents who direct deposits to us on behalf of their clients. These agents are particularly important in our obtaining deposits from rural areas which in many cases do not have the benefit of a deposit-taking institution on the spot.

In February, 1979 we officially opened a new branch in Windsor—the thirteenth in our network. Response to our new presence has been extraordinary. We are presently in the midst of major renovations on a newly purchased building in the heart of London, Ontario and have targeted August 1 as an opening date.

Selling the company's savings services places a premium on how our branches look. In response to that need we have established a program to upgrade existing branch offices.

To a casual observer, our deposit structure could seem out of proportion to our branch representation and our years in business. How have we grown so rapidly in very fast and old competition? What, to echo our annual report theme, makes our savings operation so different?

It's not just location, local economy, or product mix. It's the quality of our people that makes us stand out.

Attitudinally, it's reflected in our branch managers, who are not in Savings at all. They're in the business of making ideas work.

Our Savings managers are unmistakeably marketing oriented. Their main job is to actively offer our deposit services. They well understand that success is not a result of spontaneous combustion—that they must light the fire.

Similarly, our branch staff is enthusiastic which increases their sales effectiveness. We strive to create a feeling of vitality and involvement. Our branch people are trained to be thoroughly empathetic toward our customers, whose viewpoint is unchanging:

> *"I don't mind being listed alphabetically; I do mind being treated alphabetically."*

In complete agreement with that viewpoint, we enter 1979 as what we are—an alternative, not an echo.

Ken Chapman
Assistant Vice President
Savings Division
Toronto

Dale Negraeff
Manager
Savings Branch
Regina

Sue Clelland
Branch Administrator
Savings Branch
Vancouver

Robert H. Sanders
Manager
Trust Services
Vancouver

Finance and Administration

Where you are going is more important than where you stand.
—Hal Stebbins

The Finance and Administration group has an eclectic charter. Broadly stated, their task is to ensure order, institute financial and budgetary controls, provide information and analysis, create smooth and speedy paperflow internally, appraise financial opportunities, and above all, service our customers. All this while trying to take the work out of work. It sounds as easy as putting socks on an octopus. It's all in having the right planning and tools.

For example, the company's tremendous growth in assets and liabilities last year coincided with expansion into new services and products which resulted in sharply increased volumes of customer enquiries and responses, internal reports and record keeping. We were pleased with the way our on-line computer handled the additional work. As planned, a second computer was introduced into the system early in the year; it went smoothly. In anticipation of our continued growth, we are constantly monitoring and projecting our hardware requirements for the next three to five years.

Another important management aid is the internal audit department which is the embodiment of the maxim, "The easiest way to make money is to stop losing it." Through the use of operational audits the group conducts systems reviews, recommends internal controls, measures company response capabilities, and monitors records reliability.

One of the more interesting activities of the division in 1979 is in the area of mortgage renewal. This year the company will begin a systematic effort to establish better customer relations with mortgage holders through a regular communications program. The object: to raise the percentage of these customers who renew their mortgages with us. What led us to this program was the question, *"If you do not try to inform your customers today, what makes you think they'll remember you tomorrow?"*

Although no finance and administration division can be said to enjoy high public visibility, ours is, no less than our "front line" people, part of our total company effort to be distinctively different. How so in this case? The best way to describe it would be in the words of a little sign which, in better days, used to hang in the old Post Office in Vancouver:

> *"You are handling little pieces of people's lives."*

That sums up the group's collective attitude—an important point of difference, we think.

David S. Lines
Internal Auditor
Vancouver

Glenn M. Ferguson
Executive Vice President
Finance and Administration
Vancouver

George Will
Assistant Vice President
Mortgage Administration
Vancouver

Terry Greenslade
Manager, Data Processing
Vancouver

Frank L. Harper
Vice President
Finance and Administration
Vancouver

Walter G. Kowaluk
Vice President and Comptroller
Finance and Administration
Vancouver

George Ontko
Manager, Administration
Vancouver

The moral advantages of losing are greatly exaggerated.
—John F. Kennedy

"Our goal is to influence the market, not merely observe it."

That's the sign on the door of the Marketing Services Division. In an aggressive company whose competitive advantage is that it is a sales organization, and whose entire corporate short story is written in the active voice, a passive approach to the market would be unthinkable.

The task of the Marketing Services Division is to help the different sales components of First City to sell their services by the use of advertising, sales promotion and public relations. Perhaps Marketing Communications would be a more accurate name for the division because it also has responsibility for all visual components of the company's image (which include architectural design, interiors, graphics and signage) and internal communications.

In short, the task of the division is to communicate the goals and services of First City to:

the general public

existing customers

our own employees.

Mark Twain didn't know that he was describing us 100 years ago when he said, *"Why do I sit here looking like an envelope without a name or address on it?"* To many observers, we seemed as a company to lack a clear identity and direction even though we were going places. The newly established Marketing Services Division's first assignment in 1978 was to conduct a comprehensive marketing communications audit. When that study resulted in a decision to change the corporate name, Marketing Services took on the job of implementing the change by developing a total design program aimed at bringing all elements of the corporation under one name and symbol. Much of 1978 was taken up with the extensive advertising and public relations campaigns necessary to convey the story of the name change throughout Canada and, equally important, within the First City organization itself.

Image and identity managed to demand attention in another area of Marketing Services' responsibility in 1978: the planning and implementation of how our company's new savings branches should look. The new Victoria branch became our architectural and design prototype. Response was excellent and the deposit growth reflected this approval. Windsor was next in early March, 1979, with equally pleasing results. Next assignment: London. Branch openings are especially challenging for they demand capability in the combining of marketing services from physical design to advertising, public relations and sales promotion.

Of course, the division's bread and butter job of attending to the day-to-day promotional needs of the company (the annual report, sales meetings, literature, sales aids, point of sale items, etc.) need not be more than mentioned except to say that our approach to that work is summed up in the thought, *"Advertising is the art of wrapping the truth in imagination."*

In addition to advertising and sales promotional activities, the division has launched an internal communications program aimed at encouraging employee involvement in company growth while assuring good employer-employee relations. A major force in this effort was the creation of a regular employee newsletter, *First City Voice*, which has been very well received.

The division has entered 1979 without breaking stride, and without discarding its deeply-felt belief that the purpose of advertising is to reduce the cost of selling.

Our point of difference and that of the corporation at large is that we want always to be sure that our various publics, internal and external, know not only where our minds are, but where our hearts are.

M. Graham Jue
Divisional Vice President
Marketing Services
Vancouver

Kathy Baird
Program Coordinator
Marketing Services
Vancouver

Brad R. Smith
Manager
Advertising and Sales Promotion
Marketing Services
Vancouver

First City Capital Ltd.

You'll never get a second chance to make a first impression.
—George Kendall

The purpose of a verb is to get things moving. First City Capital has been an important catalyst for many companies in 1978; in so doing, it has been a very active verb on its own behalf. Last year First City Trust's equipment leasing and term lending arm grew nearly $30 million in terms of new commitments issued during the year. That business momentum resulted in a $10 million backlog of commitments written but not funded until 1979.

Marketing achievements for 1978 include:

successful negotiation of national agreements with equipment suppliers for their endorsement of First City Capital as their leasing company

record volumes in major vendor market areas

greatly heightened term lending activity

addition of more sales representatives and branches. At year end we had offices in Vancouver, Calgary, Edmonton, Winnipeg, Toronto and London; Montreal and Ottawa were opened in January, 1979.

In 1979 we will begin a planned expansion of the term lending portion of our portfolio. Our lease marketing strategy will continue to place a heavy emphasis on providing an effective sales aid capability to vendors and suppliers. In addition to increasing volumes with our existing customers, we will be focusing on establishing more national vendor programs, particularly in the office equipment and computer fields.

Lease finance has, in a span of less than 30 years, moved into a position of prominence among the small clutch of available capital funding resources. The plain fact is, today's business decision-makers do not have many alternatives when it comes to funding the capital equipment needed for growth. In a world beset by a shortage of capital funds, higher costs, and inflation, lease financing has become a vital instrument of business strategy. Apart from its availability, the major benefits of leasing are:

conservation of capital for more profitable investments

preservation of credit lines for other requirements

use of equipment with a minimum outlay of dollars

long term funds at a fixed rate

budget expansion

inflation and obsolescence hedge.

This is by no means a complete discussion of leasing advantages. But it does indicate *part* of the reason for the impressive growth of First City Capital: there is a responsive market.

The other part, not surprisingly, is in the quality and skill of the people in the organization. Our officers and branch managers are, by and large, the same individuals who played a major role in the pioneering and development of the Canadian equipment leasing industry as it is known today.

The word "professional" is too often misused in the marketing field. It is sufficient to say that the point of difference that distinguishes our leasing sales people is simply that they know their financial craft and practice it with drive, ability and insight.

Jim Ueland
Branch Manager
First City Capital Ltd.
Vancouver

Peter W. McDonald
President
First City Capital Ltd.
Vancouver

Dennis Hodgson
Director–Term Lending
First City Capital Ltd.
Vancouver

Robert Rowan
Vice President
First City Capital Ltd.
Toronto

Wayne A. Steele
Vice President
First City Capital Ltd.
Vancouver

G. Dennis Holmes
Vice President
First City Capital Ltd.
Edmonton

Now you have seen some of the many faces behind the names of our organizations. The diversity of personalities, skills and responsibilities combines to bring about the results you are about to see translated into figures. **At First City we are many faces, but only one profile.**

First City Financial Corporation Ltd.

Consolidated Statement of Income

For the year ended December 31, 1978 (with prior year's figures for comparison)

	1978	1977
Revenue:		
Income from investments	$60,053,723	$44,341,737
Sale of real estate	14,140,734	—
Gross income from investment properties	4,122,000	—
Fees and other income—net	8,898,907	7,836,994
Total revenue	87,215,364	52,178,731
Expenses:		
Interest:		
Customer deposits	43,747,632	31,743,424
Bank and other	1,895,095	1,376,225
Unsecured debt	209,625	572,063
Term debt	3,343,069	870,030
Cost of real estate sold	12,361,392	—
Operating costs of investment properties (excluding interest and depreciation)	2,702,648	—
Salaries and employee benefits	5,640,438	3,452,414
Operating and administrative	7,635,114	6,605,839
Total expenses	77,535,013	44,619,995
Income Before Income Taxes	9,680,351	7,558,736
Provision for Income Taxes (Note 13):		
Current	1,498,449	2,398,368
Deferred	1,338,812	459,318
Total provision for income taxes	2,837,261	2,857,686
Income Before Minority Interest	6,843,090	4,701,050
Minority Interest	1,805,556	562,518
Net Income for the Year	$ 5,037,534	$ 4,138,532
Earnings Per Share (Note 15)	$1.80	$1.76

The accompanying notes are an integral part of the consolidated financial statements.

First City Financial Corporation Ltd.

Consolidated Balance Sheet

As at December 31, 1978 (with prior year's figures for comparison)

Assets	1978	1977
Cash and Short-Term Investments	$ 22,450,860	$ 34,691,663
Securities (Note 3)	99,530,242	53,324,154
Mortgages	510,450,698	372,538,125
Secured Personal Loans	8,324,683	6,997,551
Commercial Loans and Equipment Lease Receivables	35,265,234	18,423,487
Real Estate (Note 4)	124,812,585	12,814,897
Accounts Receivable and Other Assets	16,493,906	3,687,909
Office Equipment and Leasehold Improvements (Note 5)	2,301,885	1,319,711
Goodwill (Note 7)	5,418,316	1,876,443
TOTAL	$825,048,409	$505,673,940

Approved by the Board:

Sam Belzberg

Samuel Belzberg
Director

David A Croll

David A. Croll, Q.C.
Director

Liabilities and Shareholders' Equity	1978	1977
Demand and Short-Term Deposits	$113,207,452	$ 71,837,158
Guaranteed Investment Certificates	498,837,778	353,704,258
Bank Indebtedness (Note 8)	64,514,540	18,389,921
Accounts Payable and Accrued Liabilities	21,280,447	3,467,219
Income Taxes Payable	380,794	1,140,156
Unsecured Debt (Note 9)	1,000,000	2,600,000
Term Debt (Note 10)	52,004,639	13,266,715
Deferred Income	1,974,293	799,962
Deferred Income Taxes	15,619,158	3,864,660
Minority Interest (Note 11)	24,735,111	9,478,204
	793,554,212	478,548,253
Shareholders' Equity:		
Share capital (Note 12)	13,653,351	13,627,726
Contributed surplus	2,574,112	2,566,937
Retained earnings	15,266,734	10,931,024
	31,494,197	27,125,687
TOTAL	$825,048,409	$505,673,940

The accompanying notes are an integral part of the consolidated financial statements.

First City Financial Corporation Ltd.

Consolidated Statement of Retained Earnings

For the year ended December 31, 1978 (with prior year's figures for comparison)

	1978	1977
Retained Earnings at Beginning of the Year	$10,931,024	$ 7,523,185
Net Income for the Year	5,037,534	4,138,532
	15,968,558	11,661,717
Dividends on Common Shares	670,454	464,313
Expenses of Issue of Preferred Shares by a Subsidiary Company	31,370	266,380
	701,824	730,693
Retained Earnings at End of the Year	$15,266,734	$10,931,024

The accompanying notes are an integral part of the consolidated financial statements.

Auditors' Report

To the Shareholders of
First City Financial Corporation Ltd.:

We have examined the consolidated balance sheet of First City Financial Corporation Ltd. as at December 31, 1978 and the consolidated statements of income, retained earnings and changes in cash for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its cash for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DELOITTE HASKINS & SELLS
Chartered Accountants

Vancouver, B.C.
March 30, 1979

First City Financial Corporation Ltd.

Consolidated Statement of Changes in Cash

For the year ended December 31, 1978 (with prior year's figures for comparison)

	1978	1977
Sources of Cash:		
From operations	$ 9,142,542	$ 5,356,498
Increase in customer deposits	186,503,814	86,625,385
Bank loans	9,886,619	6,536,469
Increase in accounts payable and accrued liabilities	5,790,229	88,611
Term debt	3,837,924	4,072,158
Issue of common shares	32,800	9,340,014
Issue by subsidiary of preferred shares—net of redemptions	14,335,731	5,694,107
Increase in income taxes payable	—	214,565
Decrease in accounts receivable and other assets	—	454,074
Other	—	344,280
Total	229,529,659	118,726,161
Uses of Cash:		
Net investment in:		
Securities	46,206,088	728,154
Mortgages	130,683,573	80,406,718
Secured personal loans	1,327,132	6,407,107
Commercial loans and equipment lease receivables	16,841,747	(2,614,070)
Real estate	17,100,421	9,728,289
Increase in accounts receivable and other assets	7,487,997	—
Dividends	670,454	464,313
Dividends paid to minority interest	1,726,493	436,395
Purchase of additional shares of First City Trust Company	182,384	313,310
Purchase of net assets of subsidiary—less cash acquired	15,321,598	—
Decrease in income taxes payable	1,799,362	—
Retirement of:		
Unsecured debt	1,600,000	6,400,000
Term debt	674,000	1,163,186
Other	149,213	—
Total	241,770,462	103,433,402
(Decrease) Increase in Cash for the Year	(12,240,803)	15,292,759
Cash and Short-Term Investments at Beginning of the Year	34,691,663	19,398,904
Cash and Short-Term Investments at End of the Year	$ 22,450,860	$ 34,691,663

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 1978

1. Summary of Significant Accounting Policies:

Basis of consolidation

The consolidated financial statements include the accounts of the company and the following subsidiaries, all of which are 97% owned:

First City Trust Company
First City Capital Ltd.
First City Developments Ltd., formed by amalgamation of the following (Note 2):
- Consolidated Building Corporation Limited
- First City Investments Ltd.
- First City Investments Inc.
- Citrust Developments Limited
- Citrust Developments Corp.
- Villa Properties Limited

The company has several inactive subsidiaries which have nominal assets and liabilities.

The results of operations of the subsidiaries are included in the consolidated financial statements from the respective dates of acquisition or incorporation. Joint ventures of subsidiary companies are accounted for using the proportionate consolidation method whereby the pro rata share of each of the assets, liabilities, revenues, and expenses of each joint venture is included in the financial statements (Note 6).

Securities valuation

Bonds are carried at amortized cost and stocks at cost.

Loans valuation

Mortgages and secured personal and commercial loans are carried at cost plus accrued interest, less repayments and provisions for losses.

Equipment lease receivables including secured finance contracts are carried at cost, net of unearned income and provisions for losses. These receivables are recorded in accordance with the financing method of accounting under which income is recognized on the sum-of-the-digits method. Any gains resulting from the residual values of leased assets are reflected in earnings when realized.

Real estate

Land held for development and resale, and housing completed and under construction include the cost of land, land improvements, building construction costs and all carrying costs such as mortgage interest, realty taxes, legal fees, and other direct expenses plus a portion of interest on general borrowings considered directly applicable. The company provides for the immediate write-off of any costs which are not recoverable. Accordingly, the carrying value of these inventories is less than estimated realizable value.

Foreclosed property is carried at estimated realizable value.

Investment properties are carried at cost, which includes mortgage interest, property taxes, legal fees, and certain overhead expenses (excluding general and administration expenses) capitalized during the construction and initial leasing period.

Revenue recognition:

Revenue from the sale of single or semi-detached housing is recognized when each house is completed and accepted by the purchaser.

Revenue from the sale of condominiums is recognized when (i) the amount due on closing is received, (ii) the purchaser is entitled to occupancy and undertakes to accept responsibility for repayment of the balance of the purchase price and (iii) a substantial portion of the units in the project has been occupied.

Revenue from investment properties is recognized commencing from the time 70% occupancy is achieved. Prior to this time, all operating and carrying costs, less rental revenue, are capitalized as costs of the project.

Revenue from the sale of land is recognized when all material requirements relating to the sale agreement have been met and when risks of ownership have been transferred to the purchaser.

Foreign exchange translations

Foreign currency assets and liabilities are recorded at the current rate of exchange prevailing at the balance sheet date for amounts due within one year and, for amounts not due within one year, at historic exchange rates. U.S. dollar bank loans which have been hedged are translated into Canadian dollars at the rates of exchange of the respective future contracts. Revenues and expenses have been translated at the average monthly rate of exchange.

Mortgage fees and other income

Mortgage processing fees are recognized as income by the sum-of-the-digits method over the term of the related mortgage to a maximum of five years. If the term of the mortgage is one year or less, fees are recognized as income quarterly in equal amounts. Other mortgage fees and other income are included in income as received.

Depreciation and amortization

Investment properties are depreciated principally on a 4%, forty-year sinking fund basis. The depreciation charge, which increases annually, consists of a fixed annual sum together with an amount equivalent to interest compounded at the rate of 4% per annum.

Office equipment is depreciated on the straight-line basis at rates of 10% to 30%; leasehold improvements are amortized on a straight-line basis over the terms of the related leases.

Goodwill

The excess of the cost of shares in First City Trust Company over the equity in net assets as at acquisition dates is carried at cost of $1,840,945, as management believes that this excess has continuing value. The remaining goodwill is being amortized on a straight-line basis principally over 20 years.

2. Acquisition and Amalgamation:

The company acquired, effective April 30, 1978, 94.5% of the common shares of Consolidated Building Corporation Limited on a share exchange basis for preferred shares of a subsidiary company.

As at December 1, 1978, the company effectively acquired the remaining 5.5% of the common shares of Consolidated Building Corporation Limited as a result of an amalgamation of First City Investments Ltd., Consolidated Building Corporation Limited, Citrust Developments Limited, and City Savings Nominees Ltd. (an inactive subsidiary). The amalgamated company will continue as First City Developments Ltd.

The acquisition has been accounted for by the purchase method and the following net assets were acquired:

Total assets	$109,142,616
Total liabilities	(96,055,018)
Goodwill	3,500,000
	$ 16,587,598

The following consideration was given by a subsidiary company:

Cash	$ 1,916,666
1,725,992 8¾% preferred shares at par value $8.50 each	14,670,932
	$ 16,587,598

The results of operations of the subsidiary have been included in the consolidated statement of income from the date of acquisition to November 30, 1978, the year-end of the amalgamating companies.

3. Securities:

	1978	1977
Carrying values:		
Government bonds	$28,106,263	$25,156,688
Stocks	71,423,979	28,167,466
	$99,530,242	$53,324,154
Market values:		
Government bonds	$25,054,651	$23,096,605
Stocks	73,731,588	29,600,201
	$98,786,239	$52,696,806

4. Real Estate:

	1978	1977
Land held for development and resale	$ 66,481,152	$ 8,806,621
Housing completed and under construction	12,072,000	—
Foreclosed property	4,359,411	2,589,928
Investment properties—at cost less accumulated depreciation of $2,276,834 (1977—$114,749)	41,900,022	1,418,348
	$124,812,585	$12,814,897

Depreciation on investment properties charged to income for the year amounted to $354,865 (1977—$24,847).

5. Office Equipment and Leasehold Improvements:

These assets are stated at cost less accumulated depreciation of $1,483,460 (1977—$705,576). Depreciation and amortization charged to income amounted to $396,862 (1977—$188,999).

6. Investment in Joint Ventures:

Subsidiary companies involved in real estate development have an equity interest in certain joint ventures as follows:

	Subsidiary Companies' Interest	Combined Participants' Total
Assets:		
Cash	$ 160,000	$ 362,000
Accounts receivable	610,000	1,001,000
Mortgages	3,160,000	8,242,000
Real estate	36,404,000	75,864,000
	$40,334,000	$85,469,000
Liabilities:		
Bank indebtedness	$ 3,828,000	$10,406,000
Accounts payable	3,383,000	6,984,000
Term debt—mortgages	13,431,000	28,751,000
	20,642,000	46,141,000
Participants' Equity	19,692,000	39,328,000
	$40,334,000	$85,469,000

The amounts shown as "Subsidiary Companies' Interest" above are included under their respective captions in the consolidated balance sheet.

The subsidiaries' pro rata share of the joint venture operations included in the consolidated financial statements is as follows:

Revenue:	
Sale of real estate	$2,064,000
Gross income from investment properties	38,000
Fees and other income	265,000
	2,367,000
Expenses:	
Cost of real estate sold	1,991,000
Operating costs of investment properties	3,000
Operating expenses and depreciation	117,000
	2,111,000
Income Before Income Taxes	$ 256,000

In one of the joint ventures in which a subsidiary is a one-third participant and which was formed for the purpose of constructing and selling a high-rise condominium, losses are currently estimated to approximate $6,300,000. Under the terms of the financing arrangements, the participants are jointly and severally liable at November 30, 1978 for bank indebtedness and mortgages totalling $12,380,000. Approximately $4,400,000 of the estimated loss has been provided for by the subsidiary or is recoverable out of participants' equity and advances. The remaining $1,900,000 is the other participants' share of the estimated losses, and First City Financial Corporation Ltd. is contingently liable should the other participants not be able to meet this obligation.

7. Goodwill:

Balance as at December 31, 1977	$1,876,443
Excess of cost on acquisition of additional shares of First City Trust Company over equity in net assets acquired	41,873
Excess of cost on acquisition of shares of Consolidated Building Corporation Limited over equity in net assets acquired (Note 2)	3,500,000
Balance as at December 31, 1978	$5,418,316

8. Bank Indebtedness:

	1978	1977
Bank demand loans for:		
Stock investments	$ 1,229,573	$ —
Finance receivables	1,356,980	2,750,000
Mortgage receivables	17,069,212	14,039,921
Housing completed and under construction, land held for development and sale, and related receivables	17,436,775	—
Investment properties	17,707,000	—
Operating and other	9,715,000	1,600,000
	$64,514,540	$18,389,921

Bank loans bear interest at rates from prime rate plus 1% to prime rate plus 2%.

The stock investments loan is secured by specific stocks and the finance receivables loan is secured by a $5,000,000 floating charge debenture on the receivables portfolio.

The balance of the loans are secured by a demand debenture of $100,000,000 secured by a first floating charge over all the assets of a subsidiary, by fixed charges on and assignment of specific investment properties and mortgages aggregating approximately $66,000,000, by the general assignment of a subsidiary's book debts and by the mortgage of a subsidiary's interest in a joint venture.

Included in these loans is $22,617,000 repayable in U.S. funds, of which all but $1,000,000 has been covered by forward exchange contracts. These loans will be converted to Canadian dollars as the forward exchange contracts mature.

9. Unsecured Debt:

The unsecured demand debentures issued to a shareholder are part of a series of unsecured demand debentures authorized to be issued to a limit of $12,000,000 and bear interest equal to 1½% per annum above the prime rate charged from time to time by a Canadian chartered bank.

10. Term Debt:

	1978	1977
Sinking fund debentures, Series A, unsecured	$ 2,502,000	$ 2,676,000
Subordinated notes, Series A	4,000,000	4,500,000
Secured debentures, Series A and B	642,842	708,469
Mortgages and agreements payable assumed on the acquisition of real estate, 7%—13%	34,085,797	4,624,025
Mortgages on investment properties, 7%—13%	10,774,000	—
Bank loan	—	758,221
	$52,004,639	$13,266,715

Approximate principal repayments on the aggregate term debt are:

1979	$21,112,000
1980	13,003,000
1981	4,872,000
1982	4,842,000
1983	1,887,000
Thereafter	6,289,000

The 9% sinking fund debentures, Series A, unsecured, are repayable $150,000 annually to 1991 and $600,000 in 1992. They are redeemable at the company's option with a reducing premium upon redemption.

The subordinated notes, Series A, bear interest at a rate, adjusted quarterly, equal to 1½% per annum over the prime rate of a Canadian chartered bank and are repayable $500,000 annually to 1981; and $2,500,000 in 1982.

The 7% Series A and 7¼% Series B secured debentures are secured through a Deed of Trust and Mortgage by a first charge on certain of a subsidiary company's finance receivables. The debentures require annual sinking fund repayments of $86,000 in 1979, $457,000 in 1980, and $99,000 in 1981.

11. Minority Interest:

	1978	1977
Minority interest in a subsidiary company:		
Common shareholders	$ 416,086	$ 478,204
Preferred shareholders	24,319,025	9,000,000
	$24,735,111	$9,478,204

12. Share Capital:

Preferred shares

The company is authorized to issue 1,600,000 redeemable (for the amount paid thereon) exchangeable preferred shares of no par value. No preferred shares are outstanding.

Common shares

The company is authorized to issue 8,400,00 common shares of no par value, with a maximum price of $6.25 each.

Changes in the issued common shares during the year were as follows:

	Number of Shares Issued	Dollar Value of Common Shares	Contributed Surplus
Balance December 31, 1977	2,791,488	$13,627,726	$2,566,937
Exercise of warrants	4,100	25,625	7,175
Balance December 31, 1978	2,795,588	$13,653,351	$2,574,112

Share purchase warrants

The holders of 9% sinking fund debentures, Series A, are entitled to purchase 100 common shares of the company, for each $1,000 debenture held, at $8.00 per share until the expiry date, July 15, 1982.

Common shares are reserved for issue in respect of:

A share purchase warrant for an officer permitting the purchase of shares for $8.00 to July 15, 1982, at which time the warrant expires. The number of shares that may be purchased in any year is limited	20,000
Purchase warrants issued in conjunction with the 9% sinking fund debentures, Series A	114,700
	134,700

13. Income Taxes:

A portion of the company's income is tax-exempt dividend income; accordingly, income taxes as provided in the consolidated statement of income are less than the amount obtained by applying the statutory tax rate to income before income taxes.

14. Interest Expense:

In respect of the company's real estate development operations, interest accrued during the year, for the periods commencing from acquisition dates, amounted to $4,727,000 of which $2,639,000 was charged to operations with the remaining amount being capitalized. Capitalized interest is charged to earnings during the period and in future periods, as part of the cost of real estate sold and through the depreciation of investment properties.

15. Earnings Per Share:

Earnings per share have been calculated on the weighted average number of shares outstanding during each year.

Fully diluted earnings per share have been calculated on the assumption that share purchase warrants were exercised at the beginning of the year.

Earnings in the amount of $63,400 net of income taxes were imputed on the assumed funds derived from share purchase warrants at an assumed rate of 12% before tax (1977—9% and $39,800).

	1978	1977
Fully diluted earnings per share	$1.74	$1.68

16. Commitments:

The company's premises, branch premises, and certain equipment are held under long-term leases extending for varying terms up to 1987. The aggregate amount of rentals paid in the year ended December 31, 1978 was $772,000. The aggregate rentals payable under all leases currently in force during the next five years is $4,575,000.

A subsidiary company has a deferred compensation plan for certain of its senior executive officers, which includes a provision for the payment of death, disability or retirement benefits of $1,667 each for 120 months. Provision is also made under the plan for a lump sum payment to each participant in the event of voluntary termination or dismissal, increasing from $7,440 in 1978 to a maximum of $125,994 in 1990. The subsidiary has accrued $50,000 in respect of its obligations under the plan.

17. Remuneration of Directors and Senior Officers:

The aggregate direct remuneration paid or payable by the company and its subsidiaries during the year ended December 31, 1978 to directors and senior officers of the company was $407,513.

18. Contingent Liabilities:

A subsidiary company involved in real estate development has lodged letters of credit aggregating $4,690,000 with municipalities and utilities as collateral for the fulfillment of obligations under certain subdivision agreements.

The company has guaranteed bank loans of a third party amounting to U.S. $1,384,000 as at December 31, 1978.

19. Subsequent Event:

A newly formed U.S. subsidiary company, First City Development Corporation of California, in conjunction with the company, has purchased for cash all of the outstanding common shares of Metropolitan Development Corporation, a company involved in residential real estate development in the western United States. Financing has been arranged for the purchase in the amount of approximately U.S. $26,000,000.

20. Comparative Figures:

Certain of the 1977 figures provided for the purpose of comparison have been reclassified to conform to the classifications used in the current year.

Five-Year Summary

(in thousands of dollars
except for per share figures)

	1978	1977	1976	1975	1974
Balance Sheet					
Assets					
Cash and Short-Term Investments	$ 22,451	$ 34,692	$ 19,399	$ 9,105	$ 17,450
Securities	99,530	53,324	52,596	47,622	25,858
Mortgages	510,451	372,538	292,131	220,021	188,130
Secured Personal Loans	8,325	6,998	5,356	789	2,761
Commercial Loans and Equipment Leases	35,265	18,424	16,247	15,081	11,408
Real Estate	124,813	12,815	3,088	3,830	2,127
Other Assets	24,213	6,883	7,354	6,007	15,424
	$825,048	$505,674	$396,171	$302,455	$263,158
Liabilities and Equity					
Deposits	$612,045	$425,541	$338,916	$255,381	$208,933
Other Liabilities	89,150	26,397	26,023	21,606	33,085
Term Debt	52,005	13,267	9,806	9,321	7,266
Total Liabilities	753,200	465,205	374,745	286,308	249,284
Deferred Income Taxes	15,619	3,865	3,425	3,117	2,368
Minority Interest	24,735	9,478	3,605	1,329	1,429
Shareholders' Equity	31,494	27,126	14,396	11,701	10,077
	$825,048	$505,674	$396,171	$302,455	$263,158
Income Statement					
Revenue:					
Income from Investments	$ 60,053	$ 44,342	$ 36,304	$ 29,159	$ 21,058
Fees and Other	8,899	7,837	6,697	4,537	4,102
Real Estate	18,263	—	—	—	—
Total Revenue	87,215	52,179	43,001	33,696	25,160
Expenses:					
Interest	49,195	34,562	29,305	22,991	16,885
Salaries	5,640	3,452	2,737	2,513	2,671
Real Estate	15,064	—	—	—	—
Other Expenses	9,441	7,168	5,696	4,020	3,685
Total Expenses	79,340	45,182	37,738	29,524	23,241
Income Taxes	2,837	2,858	2,366	2,248	1,051
Net Income	$ 5,038	$ 4,139	$ 2,897	$ 1,924	$ 868
Per Common Share:					
Earnings	$ 1.80	$1.76	$2.03	$1.34	$0.59
Dividends	$ 0.24	$0.20	$0.18	$0.18	$0.16
Book Value	$11.26	$9.72	$9.28	$7.65	$6.49

Consolidated Statement of Income

For the year ended December 31, 1978 (with prior year's figures for comparison)

	1978	1977
Revenue:		
Income from investments	$56,301,093	$40,719,676
Sale of real estate	14,140,734	—
Gross income from investment properties	4,122,000	—
Fees and other income—net	5,359,813	4,724,873
Total revenue	79,923,640	45,444,549
Expenses:		
Interest on customer deposits	43,747,632	31,747,967
Other interest	3,537,688	467,717
Cost of real estate sold	12,361,392	—
Operating costs of investment properties (excluding interest and depreciation)	2,702,648	—
Salaries and employee benefits	5,416,730	3,135,725
Operating and administration	5,455,425	4,661,966
Depreciation and amortization	700,744	151,043
Total expenses	73,922,259	40,164,418
Income from Operations before Income Taxes	6,001,381	5,280,131
Provision for Income Taxes (Note 13):		
Current	(171,993)	1,220,280
Deferred	1,332,912	522,346
Total provision for income taxes	1,160,919	1,742,626
Income from Operations	4,840,462	3,537,505
Gain on Company Fund Securities—net of income taxes of $134,934 (1977—$9,102)	442,433	26,592
NET INCOME FOR THE YEAR	$ 5,282,895	$ 3,564,097
Earnings Attributable to Preferred Shares	$ 1,708,293	$ 452,340
Earnings for Common Shareholders	$ 3,574,602	$ 3,111,757
Earnings Per Common Share	$3.15	$2.74

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

As at December 31, 1978
(with prior year's figures
for comparison)

Assets	1978	1977
Cash and Bank Deposit Receipts	$ 22,391,124	$ 14,766,488
Short-Term Notes and Collateral Loans	—	19,886,577
Securities (Note 3)	98,447,156	52,761,653
Accounts Receivable	12,979,680	1,697,573
Secured Personal Loans	8,324,683	6,497,551
Commercial Loans and Equipment Lease Receivables	35,265,234	18,423,487
Mortgages	508,332,139	349,667,689
Real Estate (Note 4)	124,812,585	12,814,897
Office Equipment and Leasehold Improvements (Note 5)	2,128,532	1,156,880
Other Assets	3,265,530	1,574,111
Goodwill (Note 2)	3,577,371	77,371
TOTAL	$819,524,034	$479,324,277

Approved by the Board:

Director

Sam Belzberg

Samuel Belzberg
Chairman of the Board

Director

Arnold H. Jeffrey
President

Liabilities and Shareholders' Equity	1978	1977
Customer Deposits:		
Demand and short-term deposits	$113,207,452	$ 77,041,902
Guaranteed investment certificates	498,837,778	348,264,757
Total customer deposits	612,045,230	425,306,659
Bank Indebtedness (Note 7)	63,060,340	3,750,000
Accounts Payable and Accrued Liabilities	21,627,466	2,773,656
Income Taxes Payable	400,892	329,580
Due to Parent Company (Note 8)	10,530,230	7,150,372
Term Debt (Note 9)	45,502,639	6,349,715
Subordinated Notes (Note 10)	4,000,000	4,500,000
Deferred Income	1,972,569	663,618
Deferred Income Taxes	15,472,827	3,717,585
Minority Interest (Note 11)	2,631,785	—
	777,243,978	454,541,185
Shareholders' Equity:		
Capital stock (Note 12):		
Preferred shares	23,514,007	9,000,000
Common shares	2,267,816	2,267,816
Contributed surplus, general reserve and retained earnings	16,498,233	13,515,276
Total shareholders' equity	42,280,056	24,783,092
TOTAL	$819,524,034	$479,324,277

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Contributed Surplus, General Reserve and Retained Earnings

For the year ended December 31, 1978, (with prior year's figures for comparison)

	1978	1977
Contributed Surplus (Note 12)	$ 3,478,417	$ 3,470,863
General Reserve:		
Balance at beginning of the year	1,750,000	1,500,000
Transfer from retained earnings	250,000	250,000
Balance at end of the year	2,000,000	1,750,000
Retained Earnings:		
Balance at beginning of the year	8,294,413	6,230,366
Net income for the year	5,282,895	3,564,097
	13,577,308	9,794,463
Transfer to general reserve	250,000	250,000
Dividends:		
Common	566,954	521,597
Preferred	1,708,293	452,340
Preferred share issue expense (Note 12)	32,245	276,113
Balance at end of the year	11,019,816	8,294,413
TOTAL	$16,498,233	$13,515,276

The accompanying notes are an integral part of the consolidated financial statements.

Opinion of Independent Accountants

To the Shareholders of First City Trust Company (formerly City Savings & Trust Company):

We have examined the consolidated balance sheet of First City Trust Company as at December 31, 1978 and the consolidated statements of contributed surplus, general reserve and retained earnings, income and changes in cash for the year then ended, and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. As part of our examination we verified the cash and securities of the company.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its cash for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

All transactions of the company that have come within our notice have been within the powers of the company.

DELOITTE HASKINS & SELLS
Chartered Accountants

Vancouver, B.C.
March 2, 1979
(except as to Note 18 for which the date is March 30, 1979)

Consolidated Statement of Changes in Cash

For the year ended December 31, 1978 (with prior year's figures for comparison)

	1978	1977
Sources of Cash:		
From operations	$ 7,502,273	$ 4,292,273
Increase in customer deposits	186,738,570	86,390,628
Issue of preferred shares—net of redemptions	14,514,007	6,000,000
Bank loans	6,348,128	1,000,000
Term debt—net of repayments	3,578,924	4,072,158
Short-term notes and collateral loans	19,886,577	(12,953,132)
Increase in accounts payable and accrued liabilities	5,867,410	1,376,724
Deferred income	1,221,188	144,379
Total	245,657,077	90,323,030
Uses of Cash:		
Net investment in:		
Securities	45,685,503	210,653
Mortgages	126,868,783	69,398,282
Secured personal loans	1,827,132	1,140,782
Commercial loans and equipment lease receivables	16,841,747	4,790,746
Real estate	17,654,632	9,680,584
Increase in accounts receivable	4,021,937	—
Purchase of net assets of subsidiaries less cash acquired	15,359,479	1,481,656
Office equipment and leasehold improvements	1,195,149	279,392
Dividends:		
Common	566,954	521,597
Preferred	1,708,293	452,340
Subordinated notes redeemed	500,000	250,000
Due to parent company	2,345,818	(1,262,110)
Decrease in income taxes payable	1,794,904	361,239
Other	1,662,110	640,975
Total	238,032,441	87,946,136
Increase in Cash for the Year	7,624,636	2,376,894
Cash at Beginning of the Year	14,766,488	12,389,594
Cash at End of the Year	$ 22,391,124	$ 14,766,488

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 1978

1. Summary of Significant Accounting Policies:

Basis of consolidation

The consolidated financial statements include the accounts of the company and the following wholly-owned subsidiaries:

First City Capital Ltd.
First City Developments Ltd., formed by amalgamation of the following (Note 2):
- Consolidated Building Corporation Limited
- First City Investments Ltd.
- First City Investments Inc.
- Citrust Developments Limited
- Citrust Developments Corp.
- Villa Properties Limited

The company has several inactive subsidiaries which have nominal assets and liabilities.

The results of operations of the subsidiaries are included in the consolidated financial statements from the respective dates of acquisition or incorporation. Joint ventures of subsidiary companies are accounted for using the proportionate consolidation method whereby the pro rata share of each of the assets, liabilities, revenues and expenses of each joint venture is included in the financial statements (Note 6).

Securities valuation

Bonds are carried at amortized cost and stocks at cost.

Loans valuation

Mortgages, commercial and secured personal loans are carried at cost plus accrued interest, less repayments and provisions for losses.

Equipment lease receivables including secured finance contracts are carried at cost, net of unearned income and provisions for losses. These receivables are recorded in accordance with the financing method of accounting under which income is recognized on the sum-of-the-digits method. Any gains resulting from the residual values of leased assets are reflected in earnings when realized.

Real estate

Land held for development and resale, and housing completed and under construction include the cost of land, land improvements, building construction costs and all carrying costs such as mortgage interest, realty taxes, legal fees and other direct expenses plus a portion of interest on general borrowings considered directly applicable. The company provides for the immediate write-off of any costs which are not recoverable. Accordingly, the carrying value of these inventories is less than estimated realizable value.

Foreclosed property is carried at estimated realizable value.

Investment properties are carried at cost, which includes mortgage interest, property taxes, legal fees and certain overhead expenses (excluding general and administration expenses) capitalized during the construction and initial leasing period.

Revenue recognition:

Revenue from the sale of single or semi-detached housing is recognized when each house is completed and accepted by the purchaser.

Revenue from the sale of condominiums is recognized when (i) the amount due on closing is received, (ii) the purchaser is entitled to occupancy and undertakes to accept responsibility for payment of the balance of the purchase price and (iii) a substantial portion of the units in the project has been occupied.

Revenue from investment properties is recognized commencing from the time 70% occupancy is achieved. Prior to this time, all operating and carrying costs, less rental revenue are capitalized as costs of the project.

Revenue from the sale of land is recognized when all material requirements relating to the sale agreement have been met and when risks of ownership have been transferred to the purchaser.

Foreign exchange translations

Foreign currency assets and liabilities are recorded at the current rate of exchange prevailing at the balance sheet date for amounts due within one year and, for amounts not due within one year, at historic exchange rates. U.S. dollar bank loans which have been hedged are translated into Canadian dollars at the rates of exchange of the respective future contracts. Revenues and expenses have been translated at the average monthly rate of exchange.

Mortgage fees and other income

Mortgage processing fees are recognized as income by the sum-of-the-digits method over the term of the related mortgage to a maximum of five years. If the term of the mortgage is one year or less, fees are recognized as income quarterly in equal amounts. Other mortgage fees and other income are included in income as received.

Depreciation and amortization

Investment properties are depreciated principally on a 4%, forty-year sinking fund basis. The depreciation charge, which increases annually, consists of a fixed annual sum together with an amount equivalent to interest compounded at the rate of 4% per annum.

Office equipment is depreciated on the straight-line basis at rates of 10% to 30%; leasehold improvements are amortized on a straight-line basis over the terms of the related leases.

Goodwill

Goodwill arising on the acquisition of subsidiaries is being amortized on a straight-line basis over 20 years (Note 2).

2. Acquisitions and Amalgamation:

The company acquired, effective April 30, 1978, on a share exchange basis, 94.5% of the common shares of Consolidated Building Corroration Limited.

As at December 1, 1978, the company effectively acquired 100% of the common shares of First City Investments Ltd. from the parent company, First City Financial Corporation Ltd., and the remaining 5.5% of the common shares of Consolidated Building Corporation Limited, as a result of an amalgamation of First City Investments Ltd., Consolidated Building Corporation Limited, Citrust Developments Limited and City Savings Nominees Ltd. (an inactive subsidiary). The amalgamated company will continue as First City Developments Ltd.

These acquisitions have been accounted for by the purchase method and the following net assets were acquired:

Total assets	$ 135,128,394
Total liabilities	(122,040,796)
Goodwill	3,500,000
	$ 16,587,598

The following consideration was given by the company:

Cash	$ 1,916,666
1,725,992 8¾% preferred shares at par value $8.50 each	14,670,932
	$ 16,587,598

The results of operations of these subsidiaries have been included in the consolidated statement of income from the dates of their acquisition to November 30, 1978, the year-ends of the amalgamating companies.

3. Securities:

	1978	1977
Carrying values:		
Government bonds	**$ 28,106,263**	$ 25,156,688
Stocks	**70,340,893**	27,604,965
	$ 98,447,156	$ 52,761,653
Market values:		
Government bonds	**$ 25,054,651**	$ 23,096,605
Stocks	**72,792,288**	29,000,201
	$ 97,846,939	$ 52,096,806

4. Real Estate:

	1978	1977
Land held for development and resale	**$ 66,481,152**	$ 8,806,621
Housing completed and under construction	**12,072,000**	—
Foreclosed property	**4,359,411**	2,589,928
Investment properties—at cost less accumulated depreciation of $2,276,834 (1977—$114,749)	**41,900,022**	1,418,348
	$124,812,585	$ 12,814,897

Depreciation on investment properties charged to income for the year amounted to $354,865 (1977—$24,847).

5. Office Equipment and Leasehold Improvements:

These assets are stated at cost less accumulated depreciation and amortization of $1,240,859 (1977—$489,429). Depreciation and amortization charged to income amounted to $345,879 (1977—$126,196).

6. Investments in Joint Ventures:

Subsidiary companies involved in real estate development have an equity interest in certain joint ventures as follows:

	Subsidiary Companies' Interest	Combined Participants' Total
Assets:		
Cash	$ 160,000	$ 362,000
Accounts receivable	610,000	1,001,000
Mortgages	3,160,000	8,242,000
Real estate	36,404,000	75,864,000
	$40,334,000	$85,469,000
Liabilities:		
Bank indebtedness	$ 3,828,000	$10,406,000
Accounts payable and accrued liabilities	3,383,000	6,984,000
Term debt—mortgages	13,431,000	28,751,000
	20,642,000	46,141,000
Participants' Equity	19,692,000	39,328,000
	$40,334,000	$85,469,000

The amounts shown as "Subsidiary Companies' Interest" above are included under their respective captions in the consolidated balance sheet.

The subsidiaries' pro rata share of the joint venture operations included in the consolidated statement of income is as follows:

Revenue:	
Sale of real estate	$2,064,000
Gross income from investment properties	38,000
Fees and other income	265,000
	2,367,000
Expenses:	
Cost of real estate sold	1,991,000
Operating costs of investment properties	3,000
Operating expenses and depreciation	117,000
	2,111,000
Income before income taxes	$ 256,000

In one of the joint ventures in which a subsidiary is a one-third participant and which was formed for the purpose of constructing and selling a high-rise condominium, losses are currently estimated to approximate $6,300,000. Under the terms of the financing arrangements, the participants are jointly and severally liable at November 30, 1978 for bank indebtedness and mortgages totalling $12,380,000.

In the opinion of management the subsidiary has made full provision for its share of any loss on the project.

7. Bank Indebtedness:

	1978	1977
Bank demand loans for:		
Stock investments	$ 1,120,373	$ —
Finance receivables	1,356,980	2,750,000
Mortgage receivables	16,724,212	—
Housing completed and under construction, land held for development and sale and related receivables	17,436,775	1,000,000
Investment properties	17,707,000	—
Other	8,715,000	—
	$63,060,340	$3,750,000

Bank loans bear interest at rates from prime rate plus 1% to prime rate plus 2%.

The stock investments loan is secured by specific stocks; the finance receivables loan is secured by a $5,000,000 floating charge debenture on the receivables portfolio and by a guarantee of First City Financial Corporation Ltd.

The balance of the loans are secured by a demand debenture of $100,000,000 secured by a first floating charge over all the assets of a subsidiary, by fixed charges on and assignment of specific investment properties and mortgages aggregating approximately $65,000,000, by the general assignment of a subsidiary's book debts, by the mortgage of a subsidiary's interest in a joint venture and by a $10,000,000 guarantee of First City Financial Corporation Ltd.

Included in these loans is $22,617,000 repayable in U.S. funds, of which all but $1,000,000 has been covered by forward exchange contracts. These loans will be converted to Canadian dollars as the forward exchange contracts mature.

8. Due to Parent Company:

Inter-company advances are represented by demand, unsecured subordinated loans bearing varying rates of interest based on bank prime.

9. Term Debt:

	1978	1977
Mortgages and agreements payable, assumed on the acquisition of real estate, 7%—13%	$34,085,797	$4,624,025
Mortgages on investment properties, 7%—13%	10,774,000	—
Secured debentures, 7%—7¼%, secured by finance receivables	642,842	967,469
Bank loan	—	758,221
	$45,502,639	$6,349,715

Approximate principal repayments on the aggregate term debt are:

1979	$20,462,000
1980	12,353,000
1981	4,222,000
1982	2,192,000
1983	1,737,000
Thereafter	4,537,000

10. Subordinated Notes:

Series A Subordinated Notes bear interest at a rate, adjusted quarterly, equal to 1½% per annum over the prime rate of a Canadian chartered bank.

Principal repayments are as follows:

June 20, 1979	$ 500,000
June 20, 1980	500,000
June 20, 1981	500,000
June 20, 1982	2,500,000
	$4,000,000

11. Minority Interest:

As a result of the amalgamation on December 1, 1978 discussed in Note 2, the outstanding common shares of the amalgamating companies which were not owned by First City Trust Company were converted into $2,631,785 of preferred shares of First City Developments Ltd., of which $1,646,767 is owned by First City Financial Corporation Ltd. and the balance of which is being redeemed in 1979.

Notes to the Consolidated Financial Statements December 31, 1978

12. Capital Stock:

Preferred Shares

The company is authorized to issue 2,000,000 preferred shares of a par value of $10 each, issuable in series and 2,000,000 8¾% cumulative redeemable preferred shares of a par value of $8.50 each.

As at December 31, 1978, 300,000 (1977—300,000) 10¾% cumulative, redeemable preferred shares, Series A, of a par value of $10 each are outstanding. The Series A preferred shares are redeemable after January 1981 at par plus a decreasing premium to January 1995, and thereafter at par.

As at December 31, 1978, 598,800 (1977—600,000) 8.32% cumulative, redeemable preferred shares, Series B, of a par value of $10 each were outstanding. The Series B preferred shares are redeemable after September 1982 at par plus a decreasing premium to September 1987 and thereafter at par. During the year the company purchased for cancellation 1,200 shares.

During the year, the company issued 1,725,992 8¾% cumulative redeemable preferred shares of a par value of $8.50 each. The shares were issued in connection with a share exchange offer whereby each 8¾% preferred share issued was exchanged for two common shares of Consolidated Building Corporation Limited (Note 2). Issue expenses of $32,245 (net of income taxes amounting to $31,607) have been charged to consolidated retained earnings. The 8¾% preferred shares are redeemable after April 30, 1983 at par plus a decreasing premium to April 30, 1988, and thereafter at par. During the year the company purchased for cancellation 17,050 shares.

As a result of the purchase of the Series B 8.32% preferred and the 8¾% preferred shares at less than their par value, $7,554 was credited to contributed surplus.

Common shares

The company is authorized to issue 3,500,000 common shares of a par value of $2 each. As at December 31, 1978, the company had issued 1,133,908 shares (no change during the year).

13. Income Taxes:

A portion of the company's income is tax-exempt dividend income; accordingly, income taxes as provided in the consolidated statement of income are less than the amount obtained by applying statutory tax rates to income from operations before income taxes.

14. Interest Expense:

In respect of real estate development operations of subsidiaries, interest accrued during the year, for the periods commencing from acquisition dates, amounted to $4,727,000 of which $2,639,000 was charged to operations with the remaining amount being capitalized. Capitalized interest is charged to earnings during the period and in future periods, as part of the cost of real estate sold and through the depreciation of investment properties.

15. Commitments:

The company's premises and certain equipment are held under long-term leases extending for varying terms up to 1987. The aggregate amount of rentals paid during the year was $829,500. The aggregate rentals payable under all leases currently in force during the next five years is $4,550,000.

A subsidiary company has a deferred compensation plan for certain of its senior executive officers, which includes a provision for the payment of death, disability or retirement benefits of $1,667 each for 120 months. Provision is also made under the plan for a lump sum payment to each participant in the event of voluntary termination or dismissal, increasing from $7,440 in 1978 to a maximum of $125,994 in 1990. The subsidiary has accrued $50,000 in respect of its obligations under the plan.

16. Remuneration of Directors and Senior Officers:

The aggregate direct remuneration paid or payable by the company and its subsidiaries during the year to directors and senior officers of the company was $696,693 (1977 — $408,483).

17. Contingent Liabilities:

A subsidiary company involved in real estate development has lodged letters of credit aggregating $4,690,000 with municipalities and utilities as collateral for the fulfillment of obligations under certain subdivision agreements.

18. Subsequent Event:

A newly formed U.S. subsidiary company, First City Development Corporation of California, in conjunction with the company, has purchased for cash all of the outstanding common shares of Metropolitan Development Corporation, a company involved in residential real estate development in the western United States. Financing has been arranged for the purchase in the amount of approximately U.S. $26,000,000.

19. Comparative Figures:

Certain of the 1977 figures provided for the purpose of comparison have been reclassified to conform to the classifications used in the current year.

First City Trust Company
and Subsidiaries

Five-Year Summary

(in thousands of dollars except for per share figures)

	1978	1977	1976	1975	1974
Balance Sheet					
Assets					
Cash and Short-Term Investments	$ 22,391	$ 34,653	$ 19,384	$ 8,994	$ 17,334
Securities	98,447	52,762	53,409	47,570	25,596
Mortgages	508,332	349,668	280,096	212,731	174,416
Secured Personal Loans	8,325	6,498	5,357	789	2,761
Commercial Loans and Equipment Leases	35,265	18,423	—	—	—
Real Estate	124,813	12,815	2,537	3,830	2,127
Other Assets	21,951	4,505	2,971	2,189	4,109
	$819,524	$479,324	$363,754	$276,103	$226,343
Liabilities and Equity					
Deposits	$612,045	$425,307	$338,916	$255,381	$208,933
Other Liabilities	101,591	19,166	1,639	2,445	5,761
Term Debt	45,503	6,350	4,750	5,000	—
Total Liabilities	759,139	450,823	345,305	262,826	214,694
Deferred Income Taxes	15,473	3,718	1,980	1,512	1,101
Minority Interest	2,632	—	—	—	—
Shareholders' Equity	42,280	24,783	16,469	11,765	10,548
	$819,524	$479,324	$363,754	$276,103	$226,343
Income Statement					
Revenue:					
Income from Investments	$ 56,301	$ 40,720	$ 32,408	$ 25,315	$ 18,595
Fees and Other	5,802	4,752	4,845	3,010	2,701
Real Estate Revenue	18,263	—	—	—	—
Total Revenue	80,366	45,472	37,253	28,325	21,296
Expenses:					
Interest	47,285	32,216	26,668	20,344	14,572
Salaries	5,417	3,136	2,390	2,068	2,168
Real Estate Costs	15,064	—	—	—	—
Other Expenses	6,156	4,813	3,728	2,863	2,856
Total Expenses	73,922	40,165	32,786	25,275	19,596
Income Taxes	1,161	1,743	1,779	1,425	837
Net Income	$ 5,283	$ 3,564	$ 2,688	$ 1,625	$ 863
Per Common Share:					
Earnings	$ 3.15	$2.74	$2.10	$1.43	$0.88
Dividends	$ 0.50	$0.46	$0.41	$0.36	$0.32
Book Value	$16.55	$13.92	$11.88	$10.37	$9.30

Combined Statement of Income

For the period ended November 30, 1978 (Note 1) (with figures for the year ended February 28, 1978 for comparison)

	Period Ended November 30, 1978	Year Ended February 28, 1978
Revenue:		
Sale of real estate	$16,227,000	$30,201,000
Gross income from investment properties	5,373,000	6,608,000
Interest income	2,559,000	1,617,000
Fees and other income	5,160,000	3,567,000
Total revenue	29,319,000	41,993,000
Expenses:		
Cost of real estate sold	14,483,000	25,904,000
Operating costs of investment properties (excluding interest and depreciation)	3,531,000	4,917,000
Interest	4,960,000	3,970,000
Salaries and employee benefits	1,205,000	1,351,000
Operating and administration	2,512,000	1,729,000
Depreciation	441,000	658,000
Total expenses	27,132,000	38,529,000
Income Before Income Taxes	2,187,000	3,464,000
Provision for Income Taxes:		
Current	1,853,000	1,916,000
Deferred	(718,000)	(179,000)
Total provision for income taxes	1,135,000	1,737,000
Net Income for the Period	$ 1,052,000	$ 1,727,000

The accompanying notes are an integral part of the financial statements.

First City Developments Ltd.
(Incorporated by Amalgamation
December 1, 1978 under
The Companies Act, Alberta)

Consolidated Balance Sheet

As at December 1, 1978 (Note 1)
(with February 28, 1978 figures for comparison)

Assets	December 1, 1978	February 28, 1978
Cash	$ 931,000	$ 1,478,000
Accounts Receivable and Other	10,856,000	7,180,000
Mortgages and Sales Agreements Receivable	32,360,000	26,225,000
Housing Completed and Under Construction	12,072,000	12,724,000
Land Held for Development and Sale	63,233,000	46,541,000
Investment Properties (Note 4)	41,104,000	41,815,000
TOTAL	$160,556,000	$135,963,000

Approved by the Board:

Arnold H. Jeffrey
Director

Sam Belzberg

Samuel Belzberg
Director

Liabilities and Shareholders' Equity	December 1, 1978	February 28, 1978
Bank Indebtedness (Note 5)	$ 42,876,000	$ 30,113,000
Accounts Payable and Accrued Liabilities	15,234,000	13,307,000
Income Taxes Payable	1,655,000	2,208,000
Due to First City Trust Company	1,681,000	—
Due to First City Financial Corporation Ltd. (Note 6)	10,760,000	4,065,000
Mortgages on Housing Completed and Under Construction	6,299,000	6,918,000
Mortgages on Land Held for Development and Sale (Note 7)	27,854,000	22,025,000
Mortgages on Investment Properties (Note 7)	28,481,000	27,799,000
Deferred Income Taxes	9,693,000	10,375,000
	144,533,000	116,810,000
Shareholders' Equity		
Capital stock (Note 8):		
Preferred	5,632,000	5,632,000
Common	6,118,000	6,118,000
Retained earnings	4,273,000	7,403,000
Total shareholders' equity	16,023,000	19,153,000
TOTAL	$160,556,000	$135,963,000

The accompanying notes are an integral part of the financial statements.

First City Developments Ltd.

Combined Statement of Retained Earnings

For the period ended November 30, 1978 (Note 1) (with figures for the year ended February 28, 1978 for comparison)

	Period Ended November 30, 1978	Year Ended February 28, 1978
Retained Earnings at Beginning of the Period	$7,403,000	$12,795,000
Net Income for the Period	1,052,000	1,727,000
	8,455,000	14,522,000
Excess of Cost of Shares Purchased for Cancellation Over Stated Value	—	6,162,000
Dividends (Note 9)	4,182,000	957,000
Retained Earnings at End of the Period	$4,273,000	$ 7,403,000

The accompanying notes are an integral part of the financial statements.

Auditors' Report

To the Directors of
First City Developments Ltd.:

We have examined the consolidated balance sheet of First City Developments Ltd. as at December 1, 1978, the date of formation by amalgamation (Note 1). Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, this consolidated balance sheet presents fairly the financial position of the company as at December 1, 1978 in accordance with generally accepted accounting principles applied on a consistent basis.

Our examination also included the accompanying combined statements of income, retained earnings and changes in cash for the period ended November 30, 1978 (Note 1). In our opinion, these combined financial statements present fairly the results of operations and the changes in cash of the amalgamating companies prepared on the basis that the companies had been a combined entity since their inception, in accordance with generally accepted accounting principles applied on a consistent basis.

The figures presented for comparison include amounts relating to one of the amalgamating companies which were reported on by other auditors. The amounts included for that company not examined by us represent 79% of total assets, 90% of total revenue, and 38% of net income.

DELOITTE HASKINS & SELLS
Chartered Accountants

Vancouver B.C.
March 2, 1979
(except as to note 13 for which the date is March 30, 1979)

Combined Statement of Changes in Cash

For the period ended November 30, 1978 (Note 1) (with figures for the year ended February 28, 1978 for comparison)

	Period Ended November 30, 1978	Year Ended February 28, 1978
Sources of Cash:		
From operations	$ 811,000	$ 2,206,000
Bank indebtedness	12,763,000	16,274,000
Increase in accounts payable and accrued liabilities	1,927,000	—
Increase in income taxes payable	146,000	1,650,000
Due to First City Trust Company	1,681,000	—
Due to First City Financial Corporation Ltd.	6,695,000	4,147,000
Mortgages payable, net of repayments	5,193,000	1,914,000
Decrease in housing completed and under construction and investment properties	922,000	1,774,000
Income taxes recoverable	—	993,000
Issue of common stock	—	1,980,000
Total	30,138,000	30,938,000
Uses of Cash:		
Increase in accounts receivable	3,670,000	1,417,000
Increase in mortgages and sales agreements receivable	6,135,000	8,717,000
Increase in land held for development and sale	16,692,000	7,816,000
Increase in investment properties	—	1,807,000
Dividends	4,182,000	957,000
Other	6,000	511,000
Reduction in accounts payable and accrued liabilities	—	1,794,000
Repurchase of common stock	—	8,826,000
Total	30,685,000	31,845,000
Decrease in Cash for the Period	547,000	907,000
Cash at Beginning of the Period	1,478,000	2,385,000
Cash at End of the Period	$ 931,000	$ 1,478,000

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements

December 1, 1978
and November 30, 1978

1. Amalgamation and Basis of Presentation:

On December 1, 1978, the company was formed by the amalgamation of Consolidated Building Corporation Limited, First City Investments Ltd., Citrust Developments Limited and City Savings Nominees Ltd. (an inactive company). The accompanying consolidated balance sheet reflects the financial position of the amalgamating companies as at December 1, 1978. The combined statements of income, retained earnings and changes in cash for the period ended November 30, 1978 and comparati figures as at February 28, 1978 and for the period then ended have been presented on the basis that th companies had been a combined entity since their inception.

These financial statements include the accounts of t amalgamating companies for their two previous fisc periods as follows:

	December 1, 1978	February 28, 1978
Consolidated Building Corporation Limited	As at November 30, 1978 and for the nine months then ended.	As at February 28, 1978 and for the twelve months then ended.
First City Investments Ltd. and its wholly-owned subsidiaries: **First City Investments (Ontario) Ltd.** **Citfin Funding Corporation Limited** **First City Investments, Inc.**	As at November 30, 1978 and for the eleven months then ended.	As at December 31, 1977 and for the twelve months then ended.
Citrust Developments Limited and its wholly-owned subsidiaries: **Villa Properties Limited** **Citrust Developments Corp.**		
City Savings Nominees Ltd. (inactive)		

Subsidiaries of the amalgamating companies have been accounted for by the respective parent companies on the purchase basis and the results of these subsidiaries' operations are included in their consolidated financial statements from the respective dates of acquisition or incorporation.

The company has several inactive subsidiaries which have nominal assets and liabilities.

Joint ventures are accounted for using the proportionate consolidation method whereby the pro rata share of each of the assets, liabilities, revenues, and expenses of each joint venture is included in the financial statements (Note 3).

. **Summary of Significant Accounting Policies:**

Mortgages and sales agreements receivable

Mortgages and sales agreements receivable are carried at cost plus accrued interest, less repayments and provision for losses.

Real estate

Land held for development and resale, and housing completed and under construction include the cost of land, land improvements, building construction costs and all carrying costs such as mortgage interest, realty taxes, legal fees and other direct expenses plus a portion of interest on general borrowings considered directly applicable. The company provides for the immediate write-off of any costs which are not recoverable. Accordingly, the carrying value of these inventories is less than estimated realizable value.

Investment properties are carried at cost, which includes mortgage interest, property taxes, legal fees and certain overhead expenses (excluding general and administration expenses) capitalized during the construction and initial leasing period.

Revenue recognition

Revenue from the sale of single or semi-detached housing is recognized when each house is completed and accepted by the purchaser.

Revenue from the sale of condominiums is recognized when (i) the amount due on closing is received, (ii) the purchaser is entitled to occupancy and undertakes to accept responsibility for payment of the balance of the purchase price and (iii) a substantial portion of the units in the project has been occupied.

Revenue from investment properties is recognized commencing from the time 70% occupancy is achieved. Prior to this time, all operating and carrying costs, less rental revenue, are capitalized as costs of the project.

Revenue from the sale of land is recognized when all material requirements relating to the sale agreement have been met and when risks of ownership have been transferred to the purchaser.

Foreign exchange translations

Foreign currency assets and liabilities are recorded at the current rate of exchange prevailing at the balance sheet date for amounts due within one year and, for amounts not due within one year, at historic exchange rates. U.S. dollar bank loans which have been hedged are translated into Canadian dollars at the rates of exchange of the respective future contracts. Revenue and expenses have been translated at the average monthly rate of exchange.

Fee income

Commitment and non-refundable fees are recorded as revenue at the time of making a firm commitment to fund a mortgage. Processing and other fees associated with the mortgage yield are recognized as revenue basically over the terms of the respective mortgages.

Depreciation

Investment properties are depreciated principally on a 4%, forty-year sinking fund basis. The depreciation charge, which increases annually, consists of a fixed annual sum together with an amount equivalent to interest compounded at the rate of 4% per annum.

3. Investments in Joint Ventures:

The combined financial position of the joint ventures in which the company has an equity interest is as follows:

	December 1, 1978		February 28, 1978	
	Combined Total	Company's Interest	Combined Total	Company's Interest
Assets:				
Cash	$ 362,000	$ 160,000	$ 2,436,000	$ 1,190,000
Accounts receivable	1,001,000	610,000	1,125,000	502,000
Mortgages and sales agreements receivable	8,242,000	3,160,000	9,856,000	4,902,000
Housing completed and under construction	16,530,000	6,646,000	20,180,000	7,775,000
Land held for development and sale	58,592,000	29,387,000	55,287,000	27,307,000
Investment properties	742,000	371,000	753,000	377,000
	$85,469,000	$40,334,000	$89,637,000	$42,053,000
Liabilities:				
Bank indebtedness	$10,406,000	$ 3,828,000	$11,977,000	$ 3,701,000
Accounts payable and accrued liabilities	6,984,000	3,383,000	9,910,000	5,724,000
Mortgages on housing completed and under construction	7,200,000	2,656,000	8,327,000	3,053,000
Mortgages on land held for development and sale	21,551,000	10,775,000	20,253,000	10,127,000
	46,141,000	20,642,000	50,467,000	22,605,000
Participants' equity	39,328,000	19,692,000	39,170,000	19,448,000
	$85,469,000	$40,334,000	$89,637,000	$42,053,000

The amounts shown as "Company's Interest" above are included under their respective captions in the consolidated balance sheet.

The pro rata share of the joint venture operations included in the combined statement of income is as follows:

	Period Ended November 30, 1978	Year Ended February 28, 1978
Revenue:		
Sale of real estate	$2,064,000	$5,079,000
Gross income from investment properties	38,000	53,000
Fees and other income	265,000	612,000
	2,367,000	5,744,000
Expenses:		
Cost of real estate sold	1,991,000	3,222,000
Operating costs of investment properties	3,000	5,000
Operating expenses and depreciation	117,000	7,000
	2,111,000	3,234,000
Income before income taxes	$ 256,000	$2,510,000

In one of the joint ventures in which the company is a one-third participant and which was formed for the purpose of constructing and selling a high-rise condominium, losses are currently estimated to approximate $6,300,000. Under the terms of the financing arrangements, the participants are jointly and severally liable at December 1, 1978 for bank indebtedness and mortgages totalling $12,380,000.

In the opinion of management the company has made full provision for its share of any loss on the project.

4. Investment Properties:

These assets are stated at cost less accumulated depreciation of $2,186,000 (February 28, 1978—$2,574,000).

5. Bank Indebtedness:

Bank demand loans for:

	December 1 1978	February 28, 1978
Mortgage receivables	$16,724,000	$ 9,172,000
Housing completed and under construction, land held for development and sale and related receivables	17,437,000	12,117,000
Repurchase of common stock	8,715,000	8,824,000
	$42,876,000	$30,113,000

Bank loans bear interest at rates from prime rate plus 1% to prime rate plus 2%.

The loans are secured by a demand debenture of $100,000,000 secured by a first floating charge over all the assets of the company, by fixed charges on and assignment of specific investment properties and mortgages aggregating approximately $65,000,000, by the general assignment of book debts, by the mortgage of an interest in a joint venture and by a $10,000,000 guarantee of First City Financial Corporation Ltd.

Included in these loans is $7,137,000 repayable in U.S. funds, of which all but $1,000,000 has been covered by forward exchange contracts. These loans will be converted to Canadian dollars as the forward exchange contracts mature.

6. Due to First City Financial Corporation Ltd.:

Inter-company advances are represented by demand, unsecured subordinated loans bearing varying rates of interest based on bank prime rates. During the period ended November 30, 1978, interest of $296,000 was paid on the advances.

7. Mortgages on Land Held for Development and Sale and Mortgages on Investment Properties:

These mortgages bear interest at rates varying from 7% to 13%. Principal repayments are due as follows:

	Mortgages on Land Held for Development and Sale	Mortgages on Investment Properties
1979	$12,285,000	$18,602,000
1980	5,125,000	6,783,000
1981	2,168,000	2,906,000
1982	2,109,000	83,000
1983	1,649,000	88,000
Thereafter	4,518,000	19,000
	$27,854,000	$28,481,000

Mortgages on investment properties include bank loans of $15,480,000 repayable in U.S. funds secured as outlined in Note 5. These loans are due on demand; however, the bank has indicated that it will not request repayment of $14,480,000 until September 1979, and $1,000,000 until July 1981. The loans of $14,480,000 are covered by U.S. dollar forward exchange contracts. These loans will be converted to Canadian dollars as the forward exchange contracts mature.

Notes to the Financial Statements

December 1, 1978 and November 30, 1978

8. Capital Stock:

The authorized and issued capital stock of the company is as follows:

Preferred stock:	
Authorized and issued:	
231,769 8¾% Class A cumulative preferred shares, redeemable at their par value of $4.25 each	$ 985,000
1,093,359 8¾% Class B cumulative preferred shares, redeemable at their par value of $4.25 each	4,647,000
	$5,632,000
Common stock:	
Authorized and issued—4,630,903 common shares without par value	$6,118,000

9. Dividends:

In connection with the amalgamation discussed in Note 1, dividends were declared which represented the accumulated retained earnings of First City Investments Ltd. and Citrust Developments Limited to November 30, 1978 amounting to $2,501,000 and $1,681,000 respectively.

10. Interest Expense:

Interest accrued during the period ended November 30, 1978 totalled $5,943,000 of which $3,318,000 was charged to operations with the remaining amount being capitalized. Capitalized interest is charged to earnings during the period and in future periods, as part of the cost of real estate sold and through the depreciation of investment properties.

11. Commitments:

The company's premises and certain of its equipment are held under long-term leases extending for varying terms up to 1987. The aggregate amount of rentals paid during the period was $200,000. The aggregate rentals payable under all leases currently in force during the next five years is $1,110,000.

The company has a deferred compensation plan for certain of its senior executive officers, which includes a provision for the payment of death, disability, or retirement benefits of $1,667 each for 120 months. Provision is also made under the plan for a lump sum payment to each participant in the event of voluntary termination or dismissal, increasing from $7,440 in 1978 to a maximum of $125,994 in 1990. The company has accrued $50,000 in respect of its obligations under the plan.

12. Contingent Liabilities:

The company has lodged letters of credit aggregating $4,690,000 with municipalities and utilities as collateral for the fulfillment of its obligations under certain subdivision agreements.

13. Subsequent Events:

As at February 1, 1979, the company called for the redemption of the 231,769 outstanding 8¾% Series A preferred shares at par value of $4.25, plus a declared dividend of seven cents per share, for an aggregate of $916,000.

A newly formed U.S. subsidiary company, First City Development Corporation of California, in conjunction with First City Financial Corporation Ltd. has purchased for cash all of the outstanding common shares of Metropolitan Development Corporation, a company involved in residential real estate development in the western United States. Financing has been arranged for the purchase in the amount of approximately U.S. $26,000,000.

FIRST CITY FINANCIAL CORPORATION LTD.

DIRECTORS

Senator David A. Croll, Q.C.
Chairman of the Board
Toronto, Ontario

Samuel Belzberg, B. Comm.†*
President
Vancouver, B.C.

Richard C. Baxter, B. Comm.*
Vancouver, B.C.

Hyman Belzberg
Calgary, Alberta

William Belzberg
Beverly Hills, California

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Toronto, Ontario

W. Bernard Herman, Q.C.
Toronto, Ontario

Arnold H. Jeffrey †
Vancouver, B.C.

Morley Koffman, B.A. LL.B.†
Vancouver, B.C.

Joseph H. Shoctor, Q.C.*
Edmonton, Alberta

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†Executive Committee

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FIRST CITY TRUST COMPANY

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Edmonton, Alberta

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†Executive Committee

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Vice President and Comptroller

George Will
Assistant Vice President
Mortgage Administration

Marketing Services Division

M. Graham Jue
Divisional Vice President

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Somer Rumm
Senior Vice President

Robert Friedman
Vice President

James McFarlane
Vice President

Brian Ridout
Vice President

Citrust Developments Division

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Vice President

Donald G. McMillan
Vice President

Richard E. Barker
Assistant Vice President

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David Schuman, *Partner*

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Officers

Michael Cytrynbaum
President

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First City Trust Company
Savings Branch Offices:

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Edmonton
Ottawa
Regina
Toronto
Vancouver
Winnipeg

AUDITORS

Deloitte Haskins & Sells
Chartered Accountants

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Stock Ticker Symbols:
First City Financial—**FCY**
First City Trust—**FCT**

FIRST CITY FINANCIAL CORPORATION LTD.

1200 Royal Centre
1055 West Georgia Street
Vancouver, B.C.
V6E 3S6
(604) 689-9144

FIRST CITY TRUST COMPANY

Executive Office
1200 Royal Centre
1055 West Georgia Street
V6E 3S6
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Mortgage and Savings Branches

Victoria:

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724 Fort Street
V8W 1H2
(604) 383-4141

Vancouver:

Mortgage Branch
1090 Vancouver Centre
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V6B 4N8
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(403) 266-8851 *Savings*

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T5J 0P1
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(403) 429-4811 *Savings*

Savings
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137th Avenue & 66th Street
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S4P 2B9
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S7K 1K5
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Savings Branch
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Bank Tower
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(416) 864-1393

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217 Dundas Street West
N6A 1H1
(519) 679-9220

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Mortgage and Savings Branch
302 Ouellette Avenue
N9A 1A7
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(519) 256-2314 Savings

FIRST CITY REALFUNDS

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FIRST CITY CAPITAL LTD.

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Winnipeg:
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(204) 944-0720

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217 Dundas Street West
N6A 1H1
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Montreal:
#1707-625 President
Kennedy Avenue
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(514) 842-4851

FIRST CITY DEVELOPMENTS LTD.

Vancouver:
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(604) 689-9144

Citrust Developments Division
1200 Royal Centre
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METROPOLITAN DEVELOPMENT CORPORATION

Executive Offices
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VILLA PROPERTIES LIMITED

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(416) 449-7046

We go into every game we play knowing we're going to win, and we always do. We never lose. Sometimes, of course, the clock runs out while the other team still has more points, but we know that the game isn't really over, that if we kept playing we'd end up ahead.

—Jerry Kramer

The Naming of a Nation

Although Canada is the indisputable name emblazoned across the map of the northern half of the continent of North America, numerous other names were suggested for the proposed confederation in 1867. Among these were: Albertsland, Albionora, Borealia, Britannia, Cabotia, Colonia, Efisga, Hochelaga, Norland, Superior, Transatlantia, Tuponia and Victorialand. (To think, instead of a Canadian, you could have been a Tuponian or a Hochelagander).

Fortunately, common sense prevailed and on July 1, 1867, the provinces of Upper and Lower Canada, Nova Scotia and New Brunswick became one dominion under the name of Canada.

The generally accepted origin of the name CANADA may be traced to the writings of Jacques Cartier in 1536. While sailing up the St. Lawrence River, Cartier noticed that the Indians referred to their settlements as Kanata, which from its repetition, the French took to be the name of the entire country.

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